

NEW ZEALAND OIL & GAS LIMITED

NZ Reg. Coy. No. 037842
ARBN 003 064 962
www.nzog.com

Results for announcement to the market

Reporting Period	12 months to 30 June 2011
Previous Reporting Period	6 months to 31 December 2010
Comparative Reporting Period	12 months to 30 June 2010

	Amount (NZ\$ 000s)		Increase / (decrease)
	12 months to 30 June 2011	12 months to 30 June 2010	%
Revenue from ordinary activities	106,473	99,374	7%
Surplus / (deficit) from ordinary activities after tax attributable to security holders	(75,887)	(3,909)	1841%
Net profit / (loss) attributable to security holders	(75,887)	(3,909)	1841%
	NZ\$	NZ\$	%
Net Tangible Assets per share	0.87	1.14	24%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final Dividend	2 cents	Fully imputed

Record Date	16 September 2011
Dividend Payment Date	30 September 2011

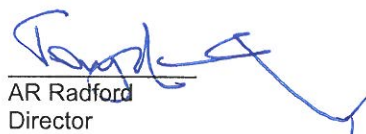
Comments:	Accompanying this announcement are the company's audited financial statements, for the year ended 30 June 2011, that have been prepared in accordance with generally accepted accounting practice and give a true and fair view of the matters to which the statements relate. These financial statements provide the balance of information required in accordance with Listing Rule 10.4.2, Appendix 1. The attached financial statements do not include the dividend declared with this notice. Dividend Reinvestment Plan NZOG's Dividend Reinvestment Plan remains in operation for shareholders resident in New Zealand or Australia. These shareholders can choose to invest all or part of their future dividends in taking up additional NZOG Shares, instead of receiving cash. New Shares issued under the Plan continue to be offered at a 2.5% discount to
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	the weighted average sale price for shares sold on each of the first five business days immediately following the dividend record date. Shareholders who wish to participate in the plan or amend previous participation instructions may do so by completing a Participation Notice. To obtain Terms and Conditions of the Plan and a Participation Notice, please refer to the New Zealand Oil & Gas Limited website: www.nzog.com Audited Financial Statements Refer to accompanying Appendix 1
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New Zealand Oil & Gas Limited Consolidated Financial statements for the year ended 30 June 2011

The Board of Directors of New Zealand Oil & Gas Limited authorised these Consolidated Financial Statements for issue on 23 August 2011.

For and on behalf of the Board.



AR Radford
Director

23 August 2011



PG Foley
Director

23 August 2011

New Zealand Oil & Gas Limited
Consolidated Income Statement
For the year ended 30 June 2011

	Notes	Group		Parent	
		2011	Restated *	2011	2010
		\$'000	2010 \$'000	\$'000	\$'000
Revenue	4	106,473	99,374	-	-
Operating costs	5	<u>(53,805)</u>	<u>(33,101)</u>	<u>-</u>	<u>-</u>
Gross profit		52,668	66,273	-	-
Other income	4	2,430	736	783	677
Exploration and evaluation costs expensed	18	(3,434)	(30,697)	-	-
Other expenses	6	<u>(11,058)</u>	<u>(10,701)</u>	<u>(10,445)</u>	<u>(10,301)</u>
Results from operating activities		<u>40,606</u>	<u>25,611</u>	<u>(9,662)</u>	<u>(9,624)</u>
Finance cost	7	(113,861)	(12,211)	(105,241)	(13,753)
Finance income	7	<u>10,628</u>	<u>2,263</u>	<u>19,322</u>	<u>12,887</u>
Net finance income/(costs)	7	<u>(103,233)</u>	<u>(9,948)</u>	<u>(85,919)</u>	<u>(866)</u>
Share of loss from associates	16	-	(11,470)	-	-
Profit/(loss) before income tax and royalties		<u>(62,627)</u>	<u>4,193</u>	<u>(95,581)</u>	<u>(10,490)</u>
Royalties expense	8	(7,981)	(7,457)	-	-
Income tax (expense)/benefit	9	<u>(5,279)</u>	<u>(645)</u>	<u>2,897</u>	<u>(302)</u>
Profit/(loss) for the year		<u>(75,887)</u>	<u>(3,909)</u>	<u>(92,684)</u>	<u>(10,792)</u>

Profit/(loss) for the year attributable to:

Equity holders of Parent	<u>(75,887)</u>	<u>(3,909)</u>
	<u>(75,887)</u>	<u>(3,909)</u>

* See changes in accounting policy - note 2(Z)(ii)

		Cents	Cents
Earnings per share attributable to shareholders:			
Basic earnings per share	29	(19.1)	(0.8)
Diluted earnings per share	29	(19.1)	(0.8)
Net Tangible Asset Backing per share		87	114

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 7 to 52.

New Zealand Oil & Gas Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2011

	Notes	Group		Parent	
		2011 \$'000	Restated * 2010 \$'000	2011 \$'000	2010 \$'000
Profit/(loss) for the year		(75,887)	(3,909)	(92,684)	(10,792)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	28	(150)	-	-	-
Fair value gain/(loss) on available for sale financial assets	28	-	(25,396)	-	-
Foreign currency translation differences	28	(9,252)	(8,960)	-	-
Other comprehensive income for the year		(9,402)	(34,356)	-	-
Total comprehensive income for the year		(85,289)	(38,265)	(92,684)	(10,792)
Total comprehensive income for the year:					
Attributable to equity holders of the Parent		(85,289)	(38,265)		

* See changes in accounting policy - note 2(Z)(ii)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 7 to 52.

New Zealand Oil & Gas Limited
Consolidated Statement of Financial Position
As at 30 June 2011

	Notes	Group			Parent	
		2011	Restated *	1 July	2011	2010
		\$'000	2010 \$'000	2009 * \$'000	\$'000	\$'000
ASSETS						
Current assets						
Cash and cash equivalents	11	149,360	142,404	174,753	101,880	107,606
Receivables and prepayments	12	23,733	20,793	10,852	121,673	204,525
Inventories	13	869	140	637	-	-
Current tax receivables		1,980	1,842	-	665	665
Convertible Bond	14	35,103	-	-	-	-
Derivative financial instruments		-	-	190	-	-
Total current assets		<u>211,045</u>	<u>165,179</u>	<u>186,432</u>	<u>224,218</u>	<u>312,796</u>
Non-current assets						
Convertible Bond	14	-	39,933	-	-	-
Investments in associates	16	-	77,088	74,781	-	-
Evaluation and exploration assets	18	7,322	6,641	5,236	-	4,430
Oil and gas assets	19	232,579	253,917	239,460	-	-
Property, plant and equipment	20	281	336	245	281	336
Intangible assets	21	41	166	105	41	166
Net deferred tax asset	26	-	-	-	1,756	-
Other financial assets	22	15,705	19,687	48,872	50,171	66,716
Total non-current assets		<u>255,928</u>	<u>397,768</u>	<u>368,699</u>	<u>52,249</u>	<u>71,648</u>
Total assets		<u>466,973</u>	<u>562,947</u>	<u>555,131</u>	<u>276,467</u>	<u>384,444</u>
LIABILITIES						
Current liabilities						
Payables	23	15,319	20,797	29,353	1,691	1,361
Current tax liabilities		-	-	493	-	-
Borrowings	24	14,644	3,217	-	-	-
Total current liabilities		<u>29,963</u>	<u>24,014</u>	<u>29,846</u>	<u>1,691</u>	<u>1,361</u>
Non-current liabilities						
Borrowings	24	48,680	59,588	-	-	-
Restoration and rehabilitation provision	25	15,715	11,998	8,144	-	-
Net deferred tax liability	26	28,176	23,137	22,323	-	1,141
Total non-current liabilities		<u>92,571</u>	<u>94,723</u>	<u>30,467</u>	<u>-</u>	<u>1,141</u>
Total liabilities		<u>122,534</u>	<u>118,737</u>	<u>60,313</u>	<u>1,691</u>	<u>2,502</u>
Net assets		<u>344,439</u>	<u>444,210</u>	<u>494,818</u>	<u>274,776</u>	<u>381,942</u>
EQUITY						
Share capital	27	358,233	353,741	347,192	358,233	353,741
Reserves	28	(17,766)	(8,697)	25,571	7,164	6,831
Retained earnings		3,972	99,166	122,055	(90,621)	21,370
Total equity		<u>344,439</u>	<u>444,210</u>	<u>494,818</u>	<u>274,776</u>	<u>381,942</u>

* See changes in accounting policy - note 2(Z)(ii)

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 7 to 52.

New Zealand Oil & Gas Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2011

GROUP	Notes	Attributable to equity holders of New Zealand Oil & Gas Limited			
		Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2009		347,192	25,571	124,029	496,792
Prior period adjustment *		-	-	(1,975)	(1,975)
Balance at 1 July 2009 (Restated)		347,192	25,571	122,054	494,817
Comprehensive income					
Profit/(loss) for the year		-	-	(3,909)	(3,909)
Other comprehensive income, net of tax					
Fair value gain/(loss) on available for sale financial assets	28	-	(25,396)	-	(25,396)
Foreign currency translation differences	28	-	(8,960)	-	(8,960)
Total comprehensive income		-	(34,356)	(3,909)	(38,265)
Transactions with owners					
Shares issued	27	6,549	-	-	6,549
Share based payment	28	-	368	-	368
Transfer of expired share based payments during the year	28	-	(280)	280	-
Dividend paid (5 cents per ordinary share)		-	-	(19,259)	(19,259)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
Balance at 30 June 2010 (Restated)		353,741	(8,697)	99,166	444,210
Balance at 1 July 2010		353,741	(8,697)	99,166	444,210
Comprehensive income					
Profit/(loss) for the year		-	-	(75,887)	(75,887)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	28	-	(150)	-	(150)
Foreign currency translation differences	28	-	(9,252)	-	(9,252)
Total comprehensive income		-	(9,402)	(75,887)	(85,289)
Transactions with owners					
Shares issued	27	7,009	-	-	7,009
Buy back of issued shares	27	(2,517)	-	-	(2,517)
Share based payment	28	-	488	-	488
Transfer of expired share based payments during the year	28	-	(155)	155	-
Dividend paid (5 cents per ordinary share)		-	-	(19,462)	(19,462)
Supplementary dividend		-	-	(663)	(663)
Foreign investor tax credit		-	-	663	663
Balance at 30 June 2011		358,233	(17,766)	3,972	344,439

* See changes in accounting policy - note 2(Z)(ii)

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 7 to 52.

New Zealand Oil & Gas Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2011
(continued)

PARENT		Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
	Notes				
Balance at 1 July 2009		347,192	6,743	51,141	405,076
Comprehensive income					
Profit/(loss) for the year		-	-	(10,792)	(10,792)
Total comprehensive income		-	-	(10,792)	(10,792)
Transactions with owners					
Shares issued	27	6,549	-	-	6,549
Share based payment	28	-	368	-	368
Transfer of expired share based payments during the year	28	-	(280)	280	-
Dividend paid (5 cents per ordinary share)		-	-	(19,259)	(19,259)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
		-	-	-	-
Balance at 30 June 2010		353,741	6,831	21,370	381,942
Balance at 1 July 2010		353,741	6,831	21,370	381,942
Comprehensive income					
Profit/(loss) for the year		-	-	(92,684)	(92,684)
Total comprehensive income		-	-	(92,684)	(92,684)
Transactions with owners					
Shares issued	27	7,009	-	-	7,009
Buy back of issued shares	27	(2,517)	-	-	(2,517)
Share based payment	28	-	488	-	488
Transfer of expired share based payments during the year	28	-	(155)	155	-
Dividend paid (5 cents per ordinary share)		-	-	(19,462)	(19,462)
Supplementary dividend		-	-	(663)	(663)
Foreign investor tax credit		-	-	663	663
		-	-	-	-
Balance at 30 June 2011		358,233	7,164	(90,621)	274,776

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 7 to 52.

New Zealand Oil & Gas Limited
Consolidated Statement of Cash Flow
For the year ended 30 June 2011

		Group	Parent		
Notes	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000	
Cash flows from operating activities					
Receipts from customers	119,353	88,949	-	-	
Interest received	3,196	2,421	1,459	1,736	
Dividend income	-	3,283	-	-	
Other revenue	1,490	600	89	600	
Production and marketing expenditure	(31,829)	(13,943)	-	-	
Payments to suppliers and employees (inclusive of Goods and Services Tax)	(12,783)	(12,469)	(8,444)	(10,011)	
Royalties	(8,265)	(18,955)	-	-	
Interest paid	(2,557)	(941)	-	-	
Income taxes paid	(3)	(1,550)	-	-	
Net cash inflow / (outflow) from operating activities	30	68,602	47,395	(6,896)	(7,675)
Cash flows from investing activities					
Repayment of loan to related party	-	6,000	-	6,000	
Exploration and evaluation expenditure	(3,768)	(28,604)	-	(1,624)	
Oil and gas expenditure	(4,106)	(34,859)	-	-	
Purchase of financial assets	-	(741)	-	-	
Purchase of shares in associate company	-	(13,921)	-	-	
Issue of convertible bond	-	(42,144)	-	-	
Purchase of property, plant and equipment	(48)	(445)	(48)	(445)	
Loan to related party	(25,000)	(6,000)	-	(6,000)	
Loan from/(to) wholly owned subsidiaries	-	-	25,474	(7,882)	
Net cash inflow / (outflow) from investing activities		(32,922)	(120,714)	25,426	(9,951)
Cash flows from financing activities					
Issues of shares	387	287	387	287	
Borrowings	182	63,049	-	-	
Buy back of issued shares	(2,517)	-	(2,517)	-	
Dividend paid	(13,503)	(13,655)	(13,503)	(13,655)	
Net cash inflow / (outflow) from financing activities		(15,451)	49,681	(15,633)	(13,368)
Net increase / (decrease) in cash and cash equivalents					
		20,229	(23,638)	2,897	(30,994)
Cash and cash equivalents at the beginning of the year		142,404	174,753	107,606	145,616
Effects of exchange rate changes on cash and cash equivalents		(13,273)	(8,711)	(8,623)	(7,016)
Cash and cash equivalents at end of year	11	149,360	142,404	101,880	107,606

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes on pages 7 to 52.

1 General information

New Zealand Oil & Gas Limited (the "Company" or "Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand ("NZX") and Australian Stock Exchanges ("ASX"). The Company is an issuer in terms of the Financial Reporting Act 1993.

The financial statements presented herewith as at and for the year ended 30 June 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 23 August 2011.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated Group.

(A) Basis of preparation

Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

Basis of measurement

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: Convertible Bond, shares held in Pan Pacific Petroleum NL, Coal Option Contract.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD or \$), which is the Company's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration and production assets, the recoverability of the investment in Pike River Coal Limited (In Receivership) (PRCL) shares, the recoverability of the convertible bond and short term facility issued to PRCL, the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to notes 18 and 19)

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate. (Refer to note 25)

The key assumptions concerning the recoverability of deferred tax assets is the certainty of entities in the Group to generate future taxable income. (Refer to note 26)

The assumptions required to be made in order to assess the recoverability of the investment in PRCL shares, the recoverability of the convertible bond and short term facility issued to PRCL include an assessment of a range of scenarios and includes a best estimate of recovery using a range of applied probabilities to the estimated future cash flows. (Refer to notes 12, 14, 16 and 22)

2 Summary of significant accounting policies (continued)

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. (Refer to note 15)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets.

For acquisitions on or after 1 January 2010, the Group will measure goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For acquisitions between 1 January 2004 and 1 January 2010:

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represented the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. (Refer to note 16)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2 Summary of significant accounting policies (continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Oil and gas joint ventures

Oil and gas joint ventures are those entities established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the ventures assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that control commences until the date that control ceases.

(C) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in statement of comprehensive income and held in equity reserves as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities classified as fair value through other comprehensive income, are included in the statement of comprehensive income and held in the fair value reserves in equity.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a component of equity.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(D) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

2 Summary of significant accounting policies (continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Investments in equity securities

The Group's investments in equity securities where the Group does not have joint control are classified as financial assets that are fair valued through other comprehensive income. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in statement of comprehensive income and held in the revaluation reserve. When an investment is derecognised, the cumulative gain or loss in the revaluation reserve is transferred to the income statement.

Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses.

Convertible Bond

Issued convertible bonds are stated at the assessed fair value with movements in fair value being recognised in the income statement.

Interest-bearing borrowings

Interest-bearing borrowings are classified as other liabilities and are subsequently measured at amortised cost using the effective interest rate method.

Trade and other payables

Trade and other payables are stated at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, short term deposits and deposits at call with an original maturity of three months or less. Cash also includes the Group's share of cash held in oil and gas joint ventures and restricted cash held under the Group's interest bearing borrowing arrangements.

Other

Accounting for finance income and expense is discussed in note 2(Q).

(ii) Derivative financial instruments

From time to time the Group may use derivative financial instruments to hedge its exposure to commodity risks and foreign exchange risks arising from operational and financing activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Trading instruments

These derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in statement of comprehensive income to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in statement of comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in the hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in the hedging reserve is transferred to the income statement in the same period that the hedged item affects the financial performance.

2 Summary of significant accounting policies (continued)

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

Separable embedded derivatives

Changes in the fair value of separable embedded derivatives are recognised immediately in the income statement.

(iii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(E) Exploration and evaluation assets

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which: (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation expenditure are impaired in the income statement under the successful efforts method of accounting, in the period that exploration work demonstrates that an area of interest or any part thereof is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made. An area of interest is defined by the Group as being a permit area where rights of tenure are current.

Upon technical feasibility and commercial viability of an area of interest exploration and evaluation assets for the area of interest is transferred to Development assets. No amortisation is provided for in respect of exploration and evaluation assets.

The recoverability of exploration and evaluation assets is contingent upon facts, such as technical success and commercial development, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and also upon meeting commitments under the terms of permits granted and joint venture agreements.

(F) Oil and gas assets

Development

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and development wells.

No amortisation is provided in respect of development assets until they are reclassified as Production assets.

Production assets

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves are amortised using the units of production method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment.

Under/over lift

Lifting arrangements for petroleum products produced in jointly-owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of the petroleum product. The net movement in underlift and overlift is recognised under operating costs in the income statement.

Subsequent costs

2 Summary of significant accounting policies (continued)

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

(G) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, such as borrowing costs incurred, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

(iii) Depreciation

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements	13 years
- Furniture and fittings	4-10 years
- Computer hardware and technical equipment	2-6 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(H) Intangible assets

(i) *Goodwill*

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

(ii) *Computer software*

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

(I) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(J) Impairment

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

2 Summary of significant accounting policies (continued)

(i) *Impairment of receivables*

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) *Impairment of non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. For exploration and evaluation assets the method for reviewing for impairment is described in note 2J(iii).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(iii) *Exploration and evaluation assets*

Exploration and evaluation assets are tested for impairment when either the period of the exploration right has expired or will expire in the near future, substantive expenditure on further exploration for and evaluation in the specific area is neither budgeted or planned, exploration for and evaluation in the specific area have not led to the discovery of commercially viable quantities and the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Any impairment loss is recognised as an expense in the income statement in the period.

(K) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(L) Employee benefits

(i) *Wages and salaries, annual leave and sick leave*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) *Share-based payments*

The issue date fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

2 Summary of significant accounting policies (continued)

(M) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) *Make good provision*

A make good provision is recognised in respect of the Group's obligation in relation to its leased buildings.

(ii) *Restoration and rehabilitation provision*

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas. Any changes in the liability in future periods are added or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the income statement as it occurs.

(N) Borrowing costs

Borrowing costs relating to assets under development up to the date that substantially all activities necessary to prepare assets under development for intended use are complete, are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

(O) Revenue recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

(i) *Sales of goods*

Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer.

(ii) *Royalty income*

Royalty income is recognised on the date the Group's right to receive payment is established.

(P) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(Q) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets at fair value through other comprehensive income, foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

2 Summary of significant accounting policies (continued)

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of financial assets at fair value through other comprehensive income, and losses on hedging instruments that are recognised in the income statement. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the income statement using the effective interest method.

(R) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(S) Royalties expense

The Group recognises petroleum royalties payable to the New Zealand Government on an accruals basis.

(T) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the financial performance attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the financial performance attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises issued convertible notes and granted share options.

(U) Net tangible asset backing per share

The Group presents net tangible asset backing per share for its issued shares. Net tangible asset backing per share is calculated by dividing net tangible assets by the number ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles and liabilities off total assets as presented at the end of the reporting period.

(V) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.

2 Summary of significant accounting policies (continued)

(W) Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of financial assets at fair value through other comprehensive income that are traded on an active market are determined by reference to their quoted bid price at the reporting date.

The fair value of financial assets at fair value through other comprehensive income that are not traded on an active market are determined by the use of a valuation technique.

The fair value of equity options are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historic volatility), life of the equity option, expected dividend yield, and the risk-free interest rate.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of employee partly paid shares is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), life of the instruments, expected dividends, and the risk-free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

(X) Standards, amendments, and interpretations effective in 2011

The Group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards:

- **NZ IFRS 2, Share Based Payments - Group cash settled share based payment transactions (Amendment)** - (effective from annual periods beginning on or after 1 January 2010)
- **NZ IFRS 3 Business Combinations (Improvements to IFRSs 2010)**– (adopted from 1 July 2010)
- **NZ IFRS 5, Non Current Assets Held for Sale and Discontinued Operations (Improvements to NZ IFRSs 2009)** - (effective from annual periods beginning on or after 1 January 2010)
- **NZ IFRS 8, Operating Segments (Improvements to IFRSs 2009)**– (adopted from 1 July 2010)
- **NZ IFRS 9 (2009), Financial Instruments** – (adopted from 1 July 2010)
- **NZ IAS 1, Presentation of Financial Statements (Improvements to NZ IFRSs 2009)** - (effective from annual periods beginning on or after 1 January 2010)
- **NZ IAS 7, Statement of Cash Flows (Improvements to NZ IFRSs 2009)** - (effective from annual periods beginning on or after 1 January 2010)
- **NZ IAS 27, Consolidated and Separate Financial Statements (Improvements to IFRSs 2010)**– (adopted from 1 July 2010)
- **NZ IAS 32, Financial Instruments: Presentation Classification of Rights Issues (Amendment)** - (effective from annual periods beginning on or after 1 February 2010)
- **NZ IAS 36, Impairment of Assets (Improvements to NZ IFRSs 2009)**(effective from annual periods beginning on or after 1 January 2010)
- **NZ IAS 39, Financial Instruments: Recognition and Measurement (Improvements to NZ IFRSs 2009)** - (effective from annual periods beginning on or after 1 January 2010)
- **NZ IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments** (effective from annual periods beginning on or after 1 July 2010)

2 Summary of significant accounting policies (continued)

(Y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Company's accounting periods beginning after 1 July 2010 or later periods but which the Company has not early adopted:

- **NZ IAS 24, Related Party Disclosures (revised 2009)** - (effective from annual periods beginning on or after 1 January 2011)
- **NZ IFRS 7, Financial Instruments: Disclosures (Improvements to IFRSs 2010)** - (effective from annual periods beginning on or after 1 January 2011)
- **NZ IAS 1, Presentation of Financial Statements (Improvements to IFRSs 2010)** - (effective from annual periods beginning on or after 1 January 2011)
- **NZ IFRS 7, Financial Instruments: Disclosures - Transfer of financial assets (Amendments)** - (effective from annual periods beginning on or after 1 July 2011)
- **NZ IAS 12, Income Taxes (Amendment) - Deferred Tax: Recovery of Underlying Assets** - (effective from annual periods beginning on or after 1 January 2012)
- **NZ IAS 1, Presentation of Financial Statements (Amendments) - Presentation of Items of Other Comprehensive Income** - (effective from annual periods beginning on or after 1 July 2012)
- **NZ IFRS 9, Financial Instruments (2010)** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IFRS 10, Consolidated Financial Statements** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IFRS 11, Joint Arrangements** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IFRS 12, Disclosure of Interests in Other Entities** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IFRS 13, Fair Value Measurement** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IAS 27, Separate Financial Statements (2011)** - (effective from annual periods beginning on or after 1 January 2013)
- **NZ IAS 28, Investments in Associates and Joint Ventures (2011)** - (effective from annual periods beginning on or after 1 January 2013)

(Z) Changes in accounting policies

(i) Adoption of NZ IFRS 9

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010 other than the early adoption of NZ IFRS 9 (2009), Financial Instruments (and its accompanying amendments to other NZ IFRS) which has been adopted effective from 1 July 2010.

NZ IFRS 9 (2009) applies only to financial assets and specifies that financial assets should be measured at either amortised cost or fair value on the basis of both the business model for managing the financial asset and the nature of any contractual cash flows. At the date of initial application, 1 July 2010, the adoption has the following effect on the classification of the material financial assets of the Group:

	Previous classification	New classification	Carrying amount under NZ IAS 39	Carrying amount under NZ IFRS 9
Convertible Bond – fixed interest	Loans and receivables	Fair value through profit or loss (as a single instrument)	36,016	39,933
Convertible Bond – equity option	Derivative – held for trading	Fair value through profit or loss (not separated and aggregated into a single financial asset)	3,917	n/a
Investment in Pan Pacific Petroleum NL	Available for sale	Fair value through other comprehensive income	18,923	18,923

2 Summary of significant accounting policies (continued)

The adoption of NZ IFRS 9 has had not affected the classification of financial assets by the Parent.

The new accounting policies for these assets are as follows:

Financial assets at fair value through other comprehensive income

Investments in equity instruments are held at fair value through other comprehensive income when an irrevocable election to do this is made at initial recognition. Such assets are measured upon initial recognition at fair value. Subsequent fair value movements are presented in other comprehensive income and recognised in the revaluation reserve. Dividends on investments held at fair value through other comprehensive income, are recognised in profit or loss when the right to receive payment is established, unless the dividend represents a return of capital. If the investment is derecognised the cumulative gain or loss may be transferred within equity reserves.

Financial assets at Fair Value through Profit or Loss

Financial assets that are not classified and measured at amortised cost, or designated at fair value through other comprehensive income, are classified as fair value through profit or loss.

As allowed by the transitional provisions of NZ IFRS 9, the Group has elected not to retrospectively apply this standard and as such has not restated the prior periods.

(ii) Restatement of comparatives

A restatement has been made to the 2010 Group comparative figures to correct the treatment of the unwinding of the discount relating to the restoration and rehabilitation provision. In previous years a total of \$2.6 million relating to the unwinding of the discount was capitalised to the production and development oil and gas assets rather than being recognised as an expense in the income statement.

The restatement of the comparatives corrects the accounting treatment to recognise the unwinding of discount on the restoration and rehabilitation provision in the income statements under 'finance costs'.

	Original 30 June 2010 \$000	Restated 30 June 2010 \$000	Restatement \$000
Impact on restated Statement of Financial Position			
Oil and gas asset - development	-	-	-
Oil and gas asset - production	257,673	253,917	(3,756)
Net deferred tax liabilities	(24,265)	(23,137)	1,128
Retained Earnings	(101,795)	(99,166)	2,629
Impact on restated Income Statement			
Finance costs	(11,276)	(12,211)	(935)
Income tax expense	(926)	(645)	281
Profit/(loss) for the year	(3,255)	(3,909)	(654)
	Original 1 July 2009 \$000	Restated 1 July 2009 \$000	Restatement \$000
Impact on restated Statement of Financial Position			
Oil and gas asset - development	207,140	205,544	(1,596)
Oil and gas asset - production	35,141	33,916	(1,225)
Net deferred tax liabilities	(23,170)	(22,323)	847
Retained Earnings	(124,029)	(122,054)	1,975

3 Segment information

For management purposes, the Group's activities are organised into a number of different segments based on the nature of the venture or investment.

Management monitors operating results and technical data associated with these segments separately for the purposes of making decisions about resource allocation and performance assessment. The financial performance of each segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs, taxes and other corporate activities are managed at a Group level.

The following summaries describe the activities within each of the reportable operating segments:

Oil and gas

Tui Area Oil Fields: Production and sale of crude oil in Petroleum Mining Permit (PMP) 38158 located in the offshore Taranaki basin, New Zealand.

Kupe Field: Production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in Petroleum Mining License (PML) 38146 located in the offshore Taranaki basin, New Zealand.

Exploration: Exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand and in Tunisia.

Investments

Investments held by the Group are in resource companies listed on the New Zealand and Australian stock exchanges. At balance date the investments held were in Pike River Coal Limited (In Receivership) and Pan Pacific Petroleum NL.

Other and unallocated

This segment comprises corporate costs and incidental costs of the Group.

No operating segments have been aggregated to form the above reportable segments.

Segment revenues are allocated based on whether the customer is located in New Zealand or overseas. All segment assets are based in New Zealand with the exception of the investment in Pan Pacific Petroleum NL, which is an Australian listed company, and the Tunisian prospecting permit.

3 Segment information (continued)

2011	Oil and Gas assets - Tui \$'000	Oil and Gas assets - Kupe \$'000	Exploration \$'000	Investments \$'000	Other and unallocated \$'000	Total \$'000
Sales to external customers - NZ	-	32,504	-	-	-	32,504
Sales to external customers - other countries	40,140	33,829	-	-	-	73,969
Total sales revenue	40,140	66,333	-	-	-	106,473
Other income	-	1,353	-	-	1,077	2,430
Total revenue and other income	40,140	67,686	-	-	1,077	108,903
Segment result	16,433	29,607	(3,434)	(92,379)	(9,981)	(59,754)
Other reconciling items - Net finance income/(costs)						(10,854)
Profit/(loss) before income tax						(70,608)
Income tax (expense)/benefit						(5,279)
Profit/(loss) for the year						(75,887)
Segment assets	23,689	208,890	7,322	62,765	-	302,666
Other reconciling items						164,307
Total assets						466,973
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	-	-	-
Included in the segment result:						
Depreciation and amortisation expense	3,335	18,839	-	-	228	22,402
Impairment of loan to related party	-	-	-	(14,550)	-	(14,550)
Impairment of investment in associate	-	-	-	(77,088)	-	(77,088)

Restated * 2010	Oil and Gas assets - Tui \$'000	Oil and Gas assets - Kupe \$'000	Exploration \$'000	Investments \$'000	Other and unallocated \$'000	Total \$'000
Sales to external customers - NZ	-	15,331	-	-	-	15,331
Sales to external customers - other countries	67,915	16,128	-	-	-	84,043
Total sales revenue	67,915	31,459	-	-	-	99,374
Other income	-	-	-	-	736	736
Total revenue and other income	67,915	31,459	-	-	736	100,110
Segment result	44,038	16,075	(30,697)	(11,470)	(11,262)	6,684
Other reconciling items - Net finance income/(costs)						(9,948)
Profit/(loss) before income tax						(3,264)
Income tax (expense)/benefit						(645)
Profit/(loss) for the year						(3,909)
Segment assets (Restated)	27,727	226,190	6,641	136,665	-	397,223
Other reconciling items						165,724
Total assets						562,947
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	77,088	-	77,088
Included in the segment result:						
Depreciation and amortisation expense	5,856	9,518	-	-	294	15,668

* See changes in accounting policy - note 2(Z)(ii)

4 Income

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Revenue				
Petroleum sales	<u>106,473</u>	<u>99,374</u>	<u>-</u>	<u>-</u>
Total revenue	<u>106,473</u>	<u>99,374</u>	<u>-</u>	<u>-</u>
Other income				
Rental income	137	136	87	77
Carbon emission expenditure recovered	1,353	-	-	-
Other income	<u>940</u>	<u>600</u>	<u>696</u>	<u>600</u>
Total other income	<u>2,430</u>	<u>736</u>	<u>783</u>	<u>677</u>
Total income	<u>108,903</u>	<u>100,110</u>	<u>783</u>	<u>677</u>

5 Operating costs

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Production and sales marketing costs	20,875	15,234	-	-
Amortisation of production asset	22,175	15,376	-	-
Repairs and maintenance	8,352	-	-	-
Carbon emission expenditure	1,983	-	-	-
Insurance expenditure	1,608	1,297	-	-
Movement in inventory	(603)	597	-	-
Movement in stock over/(under) lift	<u>(585)</u>	<u>597</u>	<u>-</u>	<u>-</u>
Total operating costs	<u>53,805</u>	<u>33,101</u>	<u>-</u>	<u>-</u>

6 Other expenses

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Classification of other expenses by nature				
Audit fees	139	125	130	125
Directors' fees	487	541	487	541
Legal fees	244	137	218	136
Consultants' fees	1,523	1,727	1,443	1,708
Employee expenses	4,674	4,289	4,674	4,289
Depreciation	100	102	100	102
Amortisation of Intangible assets	128	192	128	192
Share based payment expense	488	368	488	368
Loss on dilution of investment in associate	-	144	-	-
Donations	500	-	-	-
Other	<u>2,775</u>	<u>3,076</u>	<u>2,777</u>	<u>2,840</u>
Total other expenses	<u>11,058</u>	<u>10,701</u>	<u>10,445</u>	<u>10,301</u>

Donations during the year represented a \$500,000 contribution to the Pike River Disaster Relief Trust.

6 Other expenses (continued)

Remuneration of auditors

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Auditors' remuneration to KPMG comprises:				
Audit and review of financial statements	139	125	130	125
Non-audit related services:				
Tax compliance services	97	142	97	142
Tax advisory services	329	69	329	69
	<u>426</u>	<u>211</u>	<u>426</u>	<u>211</u>
Other assurance services	32	12	32	12
Total remuneration of auditors	<u>597</u>	<u>348</u>	<u>588</u>	<u>348</u>

Other assurance services include providing assurance services at the annual general meeting of the Company and providing accounting technical advice.

7 Net finance income/(costs)

	Group		Parent	
	2011 \$'000	Restated * 2010 \$'000	2011 \$'000	2010 \$'000
Finance costs				
Interest and finance charges	(4,077)	(1,831)	-	-
Exchange losses on foreign currency balances	(11,005)	(8,010)	(8,623)	(7,015)
Impairment of loan to related party-principal** (note 12)	(13,000)	-	-	-
Impairment of loan to related party-interest** (note 12)	(1,550)	-	-	-
Fair value adjustment of financial asset** (note 22)	(742)	-	-	-
Impairment of investment in associate** (note 16)	(77,088)	-	-	-
Net fair value loss on convertible bond** (note 14)	(6,399)	-	-	-
Net fair value loss on derivatives	-	(1,576)	-	-
Impairment of related party loans and investment in subsidiaries	-	-	96,618	6,738
Expiry and settlement of derivatives	-	(794)	-	-
Total finance costs	<u>(113,861)</u>	<u>(12,211)</u>	<u>(105,241)</u>	<u>(13,753)</u>
Finance income				
Interest income	10,614	2,263	1,396	1,768
Exchange gains on foreign currency balances	14	-	-	-
Net gain on available for sale financial assets	-	-	-	773
Dividend income	-	-	17,926	10,346
Total finance income	<u>10,628</u>	<u>2,263</u>	<u>19,322</u>	<u>12,887</u>
Net finance income/(costs)	<u>(103,233)</u>	<u>(9,948)</u>	<u>(85,919)</u>	<u>(866)</u>

* See changes in accounting policy - note 2(Z)(ii)

** These items relate to the Group's investment in and loans to Pike River Coal Limited (PRCL) which was placed into receivership on 13 December 2010 at the request of its directors. This followed the tragic events triggered by the explosion at the mine on 19 November 2010. Further details on the Group's investment in and loans to PRCL are contained in notes 12, 14, 16 and 22.

8 Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui area oil fields and Kupe gas and oil field.

9 Income tax expense

	Group		Parent	
	2011	Restated *	2011	2010
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	-	-	-	-
Deferred tax (Refer note 26)	4,751	760	(2,897)	302
Under/(over) provided in prior years	528	(115)	-	-
Total income tax expense	5,279	645	(2,897)	302
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	(62,627)	4,193	(95,581)	(10,490)
Less: royalties expense	(7,981)	(7,457)	-	-
Profit/(loss) before income tax expense	(70,608)	(3,264)	(95,581)	(10,490)
Tax at the New Zealand tax rate of 30% (2010 - 30%)	(21,182)	(980)	(28,674)	(3,147)
Tax effect of change in tax rate	(2,237)	(1,856)	(99)	-
Tax effect of amounts which are not deductible/(taxable):				
Share of associates losses	-	3,441	-	-
Foreign exchange adjustments	(1,141)	(451)	-	-
Impairment of financial assets	27,027	-	-	-
Dividends from wholly owned subsidiaries	-	-	(5,378)	(3,104)
Impairment of related party loans and investment in subsidiaries	-	-	28,985	-
Other expenses/(income)	1,001	453	154	1,938
	3,468	607	(5,012)	(4,313)
Under/(over) provision in prior years	1,811	38	(3,689)	-
Losses utilised/(transferred)	-	-	5,804	4,615
	1,811	38	2,115	4,615
Income tax expense/(benefit)	5,279	645	(2,897)	302

On 27 May 2010, the Taxation (Budget Measures) Act 2010 was given royal assent meaning that for the 2011/12 income tax year the New Zealand company tax rate changed from 30% to 28%. The effect of the reduction in the tax rate on the measurement of deferred tax assets and liabilities has been shown in the table above.

* See changes in accounting policy - note 2(Z)(ii)

10 Imputation credits

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Imputation credit account				
Balance at beginning of year	15,044	21,290	204	3,567
Tax payments, net of refunds	-	1,550	-	-
Credits attached to dividend distributions	(7,675)	(7,796)	(7,675)	(7,796)
Credits attached to dividends received	-	-	7,683	4,433
Balance at end of year	<u>7,369</u>	<u>15,044</u>	<u>212</u>	<u>204</u>

11 Cash and cash equivalents

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Cash at bank and in hand	24,167	22,661	25	685
Deposits at call	25,452	17,913	2,114	7,156
Short term deposits	99,741	101,830	99,741	99,765
Total cash and cash equivalents	<u>149,360</u>	<u>142,404</u>	<u>101,880</u>	<u>107,606</u>

Cash and cash equivalents denominated in currencies other than the presentation currency comprise \$70.1 million denominated in US dollars; NZ dollar equivalent \$85.1 million (2010: US dollars \$52 million; NZ dollar equivalent \$75 million).

(a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.1% and 3.7% (2010: 0.1% and 4.6%).

(b) Restriction of use

Included in cash and cash equivalents is:

Cash held in respect of the Kupe project facility of \$19.5 million (2010: \$17.5 million) at balance date may not be used for general working capital requirements, except after meeting interest, principal repayment and other terms of the Kupe project finance facility with Westpac Banking Corporation.

A cash deposit of US\$4.6 million (NZ dollar equivalent \$5.6 million) is held in escrow by Commonwealth Bank of Australia as security for a Letter of Credit Facility provided by the bank.

12 Receivables and prepayments

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Net trade receivables				
Trade receivables	6,371	19,563	121	-
Interest receivable	6,097	251	187	251
Less: Provision for doubtful receivables *	(1,550)	-	-	-
	<u>10,918</u>	<u>19,814</u>	<u>308</u>	<u>251</u>
Advances to related parties	-	-	121,238	203,288
Net receivables from related parties				
Short term loan facility to PRCL	25,000	-	-	-
Provision for doubtful receivables	(13,000)	-	-	-
	<u>12,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other				
Prepayments	714	627	58	57
Other	101	352	69	929
Total receivables and prepayments	<u>23,733</u>	<u>20,793</u>	<u>121,673</u>	<u>204,525</u>

Trade receivables denominated in currencies other than the presentation currency comprise \$2.3 million denominated in US dollars; NZ dollar equivalent \$2.7 million (2010: \$8.7 million denominated in US dollars; NZ dollar equivalent \$12.6 million).

* This relates to interest on the unsecured component of the short term loan advance to Pike River Coal Limited (In Receivership).

12 Receivables and prepayments (continued)

Provision for impairment of short term loan facility to PRCL

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. This follows the tragic events triggered by the explosion at the mine on 19 November 2010. At the time of the explosion, \$13.0 million was drawn, on an unsecured basis, under a \$25.0 million short-term loan facility to PRCL. The remaining \$12.0 million was advanced to PRCL on a secured basis shortly after the explosion.

An impairment provision of \$13.0 million has been made in respect of the unsecured portion of the \$25.0 million short term loan advanced to PRCL and a further \$1.6 million in respect of accrued interest for the period to 30 June 2011. No impairment provision has been made in respect of the \$12.0 million secured portion of the short term loan and accrued interest of \$1.3 million on this portion of the loan.

This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds. The key judgments and assumptions on which the position has been assessed include the outcome of the sales process of the mine and related assets, the conditionality of such sale, including the outcome of any due diligence performed by potential purchasers. Additionally, the findings of the Pike River Royal Commission of Inquiry into the cause of the explosion are yet to be determined and may impact on future recoveries.

While the Group considers it prudent to have made an impairment provision for all unsecured debt to PRCL given the uncertainty as to its recovery, it is noted that the Receivers' activities are directed towards an outcome where maximum value is recovered. While the Group has fully impaired the value of the unsecured portion of the short term loan and the equity investment in PRCL it should be further noted that under certain scenarios there is potential for recovery of some or all of the value of the short term loan and some equity.

The Group also has a secured Convertible Bond facility with PRCL (refer note 14).

The impairment loss recognised on the short term loan facility to PRCL has been included in 'net finance income/(expense)' in the income statement. The loss recognised on the accrued interest on this portion of the loan has been included in 'Finance costs' as an 'Impairment of loan to related party – interest' and recognised in the income statement.

13 Inventories

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Oil stock, at cost	594	107	-	-
LPG stock, at cost	20	33	-	-
Field operation consumables, at cost	254	-	-	-
Emission units, at cost	1	-	-	-
Total inventories	<u>869</u>	<u>140</u>	<u>-</u>	<u>-</u>

14 Convertible Bond

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Current				
Convertible Bond - recoverable fair value	35,103	-	-	-
Non-current				
Convertible Bond - fixed interest (amortised cost)	-	36,016	-	-
Convertible Bond - equity option	-	3,917	-	-
Total convertible bond	<u>35,103</u>	<u>39,933</u>	<u>-</u>	<u>-</u>

During the year ended 30 June 2010 the Group entered into an agreement with Pike River Coal Limited ("PRCL") to subscribe for a Convertible Bond with a face value of US\$28.9 million. The facility in place is a first ranking secured debt that under the terms of a Deed of Priority and a Pari Passu Deed ranks equally with the loans issued by the BNZ (other than first ranking securities held by BNZ in respect of specific mining equipment) and any distribution of proceeds must be on a pro rata basis.

On 13 December 2010 PRCL was placed into receivership at the request of its directors. This follows the tragic events triggered by the explosion at the mine on 19 November 2010.

No impairment provision has been made in respect of the US\$28.9 million Convertible Bond. The Group expects the Convertible Bond and accrued interest to be fully repaid from the sale of mine assets and insurance proceeds.

This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds as set out in note 12. While the Group expects the Convertible Bond to be fully repaid, the outcome of the Receivership remains uncertain at this stage in the sales process.

The Group also has a short term loan facility with PRCL (refer note 12).

On adoption of NZ IFRS 9 (2009) from 1 July 2010 the Convertible Bond in its entirety is recorded at fair value through profit or loss.

15 Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities:

Name of entity	Country of incorporation	Classes of shares	Equity holding	
			2011 %	2010 %
ANZ Resources Pty Limited	Australia	Ordinary	100	100
Australia and New Zealand Petroleum Limited	New Zealand	Ordinary	100	100
Kupe Royalties Limited	New Zealand	Ordinary	100	100
National Petroleum Limited	New Zealand	Ordinary	100	100
Nephrite Enterprises Limited	New Zealand	Ordinary	100	100
NZOG 38259 Limited	New Zealand	Ordinary	100	100
NZOG 38483 Limited	New Zealand	Ordinary	100	100
NZOG 38494 Limited	New Zealand	Ordinary	100	100
NZOG Canterbury Limited	New Zealand	Ordinary	100	100
NZOG Development Limited	New Zealand	Ordinary	100	100
NZOG Devon Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	100	-
NZOG Egmont Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	100	-
NZOG Energy Limited	New Zealand	Ordinary	100	100
NZOG Offshore Limited	New Zealand	Ordinary	100	100
NZOG Pacific Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	100	-
NZOG Services Limited	New Zealand	Ordinary	100	100
NZOG Taranaki Limited	New Zealand	Ordinary	100	100
NZOG Tunisia Pty Limited (Incorporated 11 February 2011)	Australia	Ordinary	100	-
Oil Holdings Limited	New Zealand	Ordinary	100	100
Petroleum Resources Limited	New Zealand	Ordinary	100	100
Petroleum Equities Limited	New Zealand	Ordinary	100	100
Resource Equities Limited	New Zealand	Ordinary	100	100
Stewart Petroleum Company Limited	New Zealand	Ordinary	100	100
New Zealand Oil & Gas Employee Benefit Trust	New Zealand	Trustee	-	-

All subsidiary companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry.

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

- Stewart Petroleum Company Limited - United States dollars (USD)
- ANZ Resources Pty Limited - Australian dollars (AUD)
- NZOG Tunisia Pty Limited - Australian dollars (AUD)

16 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

	Group		Parent
	2011 \$'000	2010 \$'000	2011 \$'000
Shares in associates	-	77,088	-

Name of company	Principal activity	Interest held by the consolidated group		Group carrying amount	
		2011 \$'000	2010	2011 \$'000	2010 \$'000
Pike River Coal Limited (In Receivership)	Coal mining	29.4%	29.4%	-	77,088

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. The investment in PRCL was carried at the equity accounted value recognised by the Group at 30 June 2010 and based on a review of the available information, as previously referred to, has been impaired down to a nil value.

From the date of receivership the Group recognised that PRCL is no longer an associate investment and reclassified the investment as an investment asset carried at fair value. Due to the receivership there are no financial statements of the performance of PRCL to the date of receivership and as such no share of results has been taken up for the period.

The Group's holding in PRCL comprises 119.0 million ordinary shares.

(b) Movements in carrying amounts

	Group
	2011 \$'000
Carrying amount at the beginning of the year	77,088
Share of net loss of associate	-
Loss on investment held in associate	-
Purchase of shares in associate	-
Impairment of investment in associate	(77,088)
Carrying amount at the end of the year	-

(c) Summarised financial information of associates (100% share)

	Assets \$'000	Group's share of: Liabilities \$'000	Revenues \$'000	Profit/(Loss) \$'000
2011				
Pike River Coal Limited (In Receivership)	-	-	-	-
2010				
Pike River Coal Limited	339,995	77,689	3,346	(39,028)

17 Interests in oil and gas joint ventures

NZOG group interests held at balance date in significant unincorporated oil and gas joint ventures established to explore, develop and produce petroleum:

Name of entity	Interests held by the Group	
	2011	2010
PML 38146 - Kupe	15.0%	15.0%
PMP 38158 - Tui	12.5%	12.5%
PEP 38483 - Bahamas (i)	- %	18.9%
PEP 38259 - Barque (ii)	40.0%	40.0%
PEP 51311 - Kaupokonui (iii)	100.0%	100.0%
PEP 51321 - Kahurangi (iv)	18.9%	18.9%
PEP 38401 - Hoki (v)	- %	10.0%
PEP 38491 - Albacore	100.0%	40.0%
PEP 51988 - Mangaa	100.0%	100.0%
PEP 51558 - Kanuka (vi)	20.0%	- %
Prospecting Permit Diodore (Tunisia) (vii)	100.0%	- %

(i) PEP 38483 (Bahamas) was relinquished in January 2011.

(ii) In December 2010 a request to change the conditions of PEP 38259 (Barque) in respect of drill commitment dates was made to the Minister of Energy. The change to the drill commitment date is awaiting approval by the Minister of Energy.

(iii) NZOG has entered into a farm-out agreement with Raisama Limited which will reduce NZOG's interest in PEP 51311 (Kaupokonui) to 90%, subject to final conditions being met and the subsequent approval of the Minister of Energy.

(iv) A notice to surrender the full permit area of PEP 51321 (Kahurangi) was submitted to the Minister of Energy during the year. The Minister of Energy approved the surrender on the 15 July 2011.

(v) PEP 38401 (Hoki) was relinquished in November 2010.

(vi) An application to increase the direct interest in PEP 51558 (Kanuka) to 50% was submitted to the Minister of Energy during May 2011, with the withdrawal of partners in the permit area.

(vii) Tunisia prospecting permit (Diodore) was awarded 15 June 2011.

	Group	
	2011 \$'000	2010 \$'000
Share of oil and gas joint ventures' assets and liabilities		
Cash and cash equivalents	3,635	6,547
Trade receivables *	738	2,453
Inventory	868	139
Petroleum interests **	299,500	298,522
Total assets	<u>304,741</u>	<u>307,661</u>
Current liabilities	5,510	11,678
Non-current liabilities	-	-
Total liabilities	<u>5,510</u>	<u>11,678</u>
Net assets	<u>299,231</u>	<u>295,983</u>

Share of oil and gas joint ventures' revenue, expenses and results

Revenues *	94	355
Expenses	(21,926)	(44,814)
Profit before income tax	<u>(21,832)</u>	<u>(44,459)</u>

* Revenue receivable from Tui and Kupe petroleum sales (see Note 4) is not included as it is earned directly by wholly owned subsidiaries that hold the permit interests.

** Prior to amortisation of production assets.

18 Exploration and evaluation assets

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	6,641	5,236	4,430	2,968
Expenditure capitalised	4,334	32,044	90	1,462
Revaluation of USD exploration and evaluation assets	(219)	58	-	-
Expenditure written off	(3,434)	(30,697)	-	-
Transfer of exploration interest to wholly owned subsidiaries	-	-	(4,520)	-
Closing balance	<u>7,322</u>	<u>6,641</u>	<u>-</u>	<u>4,430</u>

19 Oil and gas assets

(a) Development assets

	Group		Parent	
	2011 \$'000	Restated * 2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	-	207,140	-	-
Prior period adjustment	-	(1,596)	-	-
Restated opening balance	-	<u>205,544</u>	-	-
Expenditure capitalised	-	27,747	-	-
Borrowing costs capitalised	-	1,210	-	-
Expiry of commodity premium	-	(410)	-	-
Commissioning revenue and expenditure capitalised	-	(573)	-	-
Transferred to production assets	-	<u>(233,518)</u>	-	-
Closing balance	-	<u>-</u>	-	-

(b) Production assets

	Group		Parent	
	2011 \$'000	Restated * 2010 \$'000	2011 \$'000	2010 \$'000
Opening balance	253,917	35,141	-	-
Prior period adjustment	-	(1,225)	-	-
Restated opening balance	<u>253,917</u>	<u>33,916</u>	-	-
Expenditure capitalised	1,622	1,462	-	-
Amortisation for the year	(22,175)	(15,376)	-	-
Revaluation of USD production assets	(4,217)	(2,453)	-	-
Expiry of commodity premium	-	(383)	-	-
Abandonment provision	3,432	3,233	-	-
Transfer from development assets	-	<u>233,518</u>	-	-
Closing balance	<u>232,579</u>	<u>253,917</u>	<u>-</u>	<u>-</u>

Includes capitalised borrowing costs of \$10.5 million at 30 June 2011 (2010: \$11.7 million).

Total oil and gas assets	<u><u>232,579</u></u>	<u><u>253,917</u></u>	<u><u>-</u></u>	<u><u>-</u></u>
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* See changes in accounting policy - note 2(Z)(ii)

20 Property, plant and equipment

Group and Parent	Land and Leasehold improvement \$'000	Fixtures and fittings \$'000	Computer Hardware and Technical Equipment \$'000	Total \$'000
At 1 July 2009				
Cost	145	134	288	567
Accumulated depreciation	(25)	(58)	(239)	(322)
Net book value	<u>120</u>	<u>76</u>	<u>49</u>	<u>245</u>
Year ended 30 June 2010				
Opening net book value	120	76	49	245
Additions	81	12	100	193
Depreciation charge	(18)	(19)	(65)	(102)
Closing net book value	<u>183</u>	<u>69</u>	<u>84</u>	<u>336</u>
At 30 June 2010				
Cost	226	144	337	707
Accumulated depreciation	(43)	(75)	(253)	(371)
Net book value	<u>183</u>	<u>69</u>	<u>84</u>	<u>336</u>
Opening net book value	183	69	84	336
Additions	6	6	33	45
Depreciation charge	(19)	(17)	(64)	(100)
Closing net book value	<u>170</u>	<u>58</u>	<u>53</u>	<u>281</u>
At 30 June 2011				
Cost	232	150	370	752
Accumulated depreciation	(62)	(92)	(317)	(471)
Net book value	<u>170</u>	<u>58</u>	<u>53</u>	<u>281</u>

21 Intangible assets

	2011 \$'000 Computer software	2010 \$'000 Computer software
Group and Parent		
At 1 July		
Intangible assets (at cost)	781	528
Less: Accumulated amortisation	<u>(615)</u>	<u>(423)</u>
Net book value	<u>166</u>	<u>105</u>
Movement		
Opening net book value	166	105
Additions	3	253
Amortisation charge	<u>(128)</u>	<u>(192)</u>
Closing net book value	<u>41</u>	<u>166</u>
At 30 June		
Intangible assets (at cost)	784	781
Less: Accumulated amortisation	<u>(743)</u>	<u>(615)</u>
Net book value	<u>41</u>	<u>166</u>

22 Other financial assets

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Pan Pacific Petroleum NL - Shares:				
Available for sale financial assets	-	18,923	-	-
Investment assets (fair value through other comprehensive income)	<u>15,662</u>	-	-	-
	<u>15,662</u>	<u>18,923</u>	<u>-</u>	<u>-</u>
Pike River Coal Limited (In Receivership) (PRCL) financial assets:				
Shares	-	-	-	-
Coal Contract Option *	<u>-</u>	<u>721</u>	<u>-</u>	<u>-</u>
	<u>-</u>	<u>721</u>	<u>-</u>	<u>-</u>
Other				
Investment in subsidiaries (note 15)	-	-	50,171	66,716
Refundable security deposits	<u>43</u>	<u>43</u>	<u>-</u>	<u>-</u>
Total other financial assets	<u>15,705</u>	<u>19,687</u>	<u>50,171</u>	<u>66,716</u>

* Coal option contract classified as available for sale asset in 2010 and fair value through other comprehensive income in 2011.

(a) Investment assets

Shares held in Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is measured at fair value at reporting date of \$15.7 million and is classified as an investment asset at fair value in accordance with NZ IFRS 9 (2009) (previously classified as available for sale financial asset). The Group has designated the investment asset as fair value with movements through other comprehensive income as this best matches the Group's holding intention for this investment. Under the previous standard, NZ IAS 39, the Group was required to determine whether investments were impaired, with any impairment being recognised through profit or loss. No such impairment existed at the date of initial application of NZ IFRS 9 (2009). Under NZ IFRS 9 (2009) there is no requirement to determine if investments are impaired, with all gains and losses being recognised in other comprehensive income.

Accordingly, the previous available for sale reserve of \$4.12 million has been transferred to a Revaluation Reserve. The cost of this investment was the equivalent of NZ\$21.6 million (US\$17.8 million) and is held by Stewart Petroleum Co Limited.

Shares held in Pike River Coal Limited (In Receivership)

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. This followed the tragic events triggered by the explosion at the Pike mine on 19 November 2010. From the date of receivership the Group recognised that PRCL is no longer an associate investment and reclassified the investment as a financial asset at fair value through profit or loss. This transfer occurred at the estimated fair value which was nil. The Group's holding in PRCL comprises 119.0 million ordinary shares.

Prior to reclassifying the shares in PRCL as a financial asset held at fair value through profit or loss the associate investment was fully impaired. This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds. While the Group has recognised a loss based on a best estimate of the discounted value of expected future cash flows, the outcome of the receivership is highly uncertain at this time and significant changes in the assessment of recoveries may occur in subsequent reporting periods.

The impairment loss recognised on the shares and options has been included in 'net finance income/(expense)' in the income statement.

Coal Contract Option with Pike River Coal Limited (In Receivership)

The coal contract option issued by PRCL was reclassified as fair value through other comprehensive income on adoption of NZ IFRS 9. The Group has determined the coal contract option is fully impaired as at 30 June 2011 with the fair value movement to nil income statement (30 June 2010: NZ\$0.7 million available for sale asset). The cost of the coal contract option to the group was NZ\$0.7 million (US\$0.5 million).

22 Other financial assets (continued)

The fair value adjustment recognised on the coal contract option has been included in 'net finance income/(expense)' in the income statement.

(b) Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to license work programme commitments being met.

23 Payables

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Trade payables	6,372	12,472	726	588
Employee entitlements	284	286	284	286
Accrued expenses	1,647	572	598	404
Interest payable	413	289	-	-
Royalties payable	6,211	6,497	-	-
Stock overlift liability	13	598	-	-
Other payables	379	83	83	83
Total payables	<u>15,319</u>	<u>20,797</u>	<u>1,691</u>	<u>1,361</u>

Payables denominated in currencies other than the presentation currency comprise \$0.7 million of payables denominated in US dollars; NZ dollar equivalent \$0.9 million. (2010: US dollars \$3.5 million; NZ dollar equivalent \$5.2 million)

24 Borrowings

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Secured - Current				
Bank loans	14,644	3,217	-	-
Secured - Non-current				
Bank loans	<u>48,680</u>	<u>59,588</u>	<u>-</u>	<u>-</u>
Total borrowings	<u>63,324</u>	<u>62,805</u>	<u>-</u>	<u>-</u>

Further information relating to maturity dates and contractual repayment terms of the borrowings is set out in note 31.

Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui area oil fields. At 30 June 2011 the Letter of Credit facility was US\$4.6 million (30 June 2010: US\$5.9 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility for the Tui area oil fields is secured over the Group's assets other than those primarily relating to the Kupe, investments in Pike River Coal Limited (In Receivership), and a number of exploration assets.

At 30 June 2011 the Group has a project facility in respect of Kupe of NZ\$63 million with Westpac Banking Corporation that was fully drawn.

The Kupe project facility is secured over the Group's Kupe assets. The facility is repaid progressively over the life until the facility is fully repaid by 31 March 2015.

25 Restoration and rehabilitation provision

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Restoration and rehabilitation provision	<u>15,715</u>	<u>11,998</u>	<u>-</u>	<u>-</u>
Total restoration and rehabilitation provisions	<u>15,715</u>	<u>11,998</u>	<u>-</u>	<u>-</u>

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

Movements in provisions

	2011 \$'000	2010 \$'000
Carrying amount at start of year	11,998	8,144
Addition/(reduction) in provisions recognised	3,432	3,273
Revaluation of USD provisions	(1,035)	(354)
Unwinding of discount *	<u>1,320</u>	<u>935</u>
Carrying amount at end of year	<u>15,715</u>	<u>11,998</u>

* See changes in accounting policy - note 2(Z)(ii)

26 Deferred tax assets and liabilities

	Group		Parent	
	2011	Restated *	2011	2010
	\$'000	\$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
<i>Deferred tax assets</i>				
Non-deductible provisions	4,400	3,360	-	-
Tax losses	1,675	3,697	1,675	-
Other items	602	367	81	188
Total deferred tax assets	<u>6,677</u>	<u>7,424</u>	<u>1,756</u>	<u>188</u>
<i>Deferred tax liabilities</i>				
Exploration assets	(2,157)	(1,992)	-	(1,329)
Oil and gas assets	(29,751)	(25,255)	-	-
Capitalised borrowing costs	(2,945)	(3,307)	-	-
Other financial assets	-	(7)	-	-
Total deferred tax liabilities	<u>(34,853)</u>	<u>(30,561)</u>	<u>-</u>	<u>(1,329)</u>
Net deferred tax asset/(liabilities)	<u>(28,176)</u>	<u>(23,137)</u>	<u>1,756</u>	<u>(1,141)</u>
Movements:				
Net deferred tax asset/(liability) at 1 July	(23,137)	(23,170)	(1,141)	(839)
Prior period adjustment	-	847	-	-
Restated net deferred tax asset/(liability) at 1 July	<u>(23,137)</u>	<u>(22,323)</u>	<u>(1,141)</u>	<u>(839)</u>
Charged/(credited) to the income statement (note 9)	(4,751)	(760)	2,897	(302)
Foreign exchange differences	(288)	(54)	-	-
Closing balance at 30 June	<u>(28,176)</u>	<u>(23,137)</u>	<u>1,756</u>	<u>(1,141)</u>

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences.

* See changes in accounting policy - note 2(Z)(ii)

27 Contributed equity of the Group and Parent

	2011 Number of Shares 000s	2010 Number of Shares 000s	2011 \$'000	2010 \$'000
(a) Share capital				
Ordinary shares				
Fully paid shares	392,114	389,093	358,178	353,697
Partly paid shares	5,470	4,415	55	44
	<u>397,584</u>	<u>393,508</u>	<u>358,233</u>	<u>353,741</u>

(b) Movements in ordinary share capital:

	2011 Shares 000s	2010 Shares 000s	2011 \$'000	2010 \$'000
Opening	393,508	387,858	353,741	347,192
Issues of ordinary shares during the year				
Shares issued	5,236	3,919	6,622	6,263
Buy back of issued shares	(2,585)	-	(2,517)	-
Partly paid paid shares issued	1,425	1,731	387	286
Closing balance of ordinary shares issued	<u>397,584</u>	<u>393,508</u>	<u>358,233</u>	<u>353,741</u>

(c) Ordinary shares

Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

(d) Partly paid shares

Information relating to the employee share ownership plan (ESOP), including details of shares issued under the scheme, is set out in note 33.

Partly paid shares issued by the company to participants of the ESOP are paid by the participant to NZ\$0.01 per share on issue. Partly paid shares are entitled to a vote in proportion to the amount paid up.

28 Reserves

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
(a) Reserves				
Revaluation reserve	(4,267)	-	-	-
Available for sale financial asset reserve	-	(4,117)	-	-
Share based payments reserve	699	366	699	366
Foreign currency translation reserve	(14,198)	(4,946)	-	-
Share revaluation reserve	-	-	6,465	6,465
Total reserves	<u>(17,766)</u>	<u>(8,697)</u>	<u>7,164</u>	<u>6,831</u>

Movements:

Revaluation reserve

Balance 1 July	-	-	-	-
Transferred on 1 July 2010 from available for sale reserve on adoption of NZ IFRS 9	(4,117)	-	-	-
Fair value loss through other comprehensive income	(150)	-	-	-
Balance 30 June	<u>(4,267)</u>	<u>-</u>	<u>-</u>	<u>-</u>

Available for sale financial asset reserve

Balance 1 July	(4,117)	21,279	-	-
Fair value gain/(loss) on available for sale financial assets for the year	-	(25,396)	-	-
Transferred available for sale reserve to revaluation reserve on 1 July 2010	4,117	-	-	-
Balance 30 June	<u>-</u>	<u>(4,117)</u>	<u>-</u>	<u>-</u>

Share-based payments reserve

Balance 1 July	366	278	366	278
Share based payment expense for the year	488	368	488	368
Transfer of expired share based payments during the year	(155)	(280)	(155)	(280)
Balance 30 June	<u>699</u>	<u>366</u>	<u>699</u>	<u>366</u>

Foreign currency translation reserve

Balance 1 July	(4,946)	4,014	-	-
Foreign currency translation differences for the year	(9,252)	(8,960)	-	-
Balance 30 June	<u>(14,198)</u>	<u>(4,946)</u>	<u>-</u>	<u>-</u>

Share revaluation reserve

Balance 1 July	-	-	6,465	6,465
Balance 30 June	<u>-</u>	<u>-</u>	<u>6,465</u>	<u>6,465</u>

(b) Nature and purpose of reserves

(i) Previous Available for sale reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL and the coal contract option with Pike River Coal Limited (In Receivership) that were classified as available for sale assets. The reserve represents changes in the fair value of the investment from the original cost. Amounts are recognised in the income statement when the associated assets are sold or impaired.

(ii) Revaluation reserve

This reserve relates to the residual reserve held in respect to the Pan Pacific Petroleum NL investment as at 1 July 2010 on adoption of NZ IFRS 9 which was reclassified to Revaluation Reserve.

28 Reserves (continued)

(iii) Foreign currency translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. Subsidiary companies with a functional currency different to the Group are Stewart Petroleum Company Limited (USD), ANZ Resources Pty Limited (AUD) and NZOG Tunisia Pty Limited (AUD). Stewart Petroleum Company Limited holds the Tui asset and the investment in Pan Pacific Petroleum NL. The reserve is recognised in the income statement when the net investment is disposed of.

(iv) Share revaluation reserve

This reserve relates to the circumstances where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the income statement when the wholly owned subsidiary is disposed of.

29 Earnings per share

	Group 2011 Cents	Restated * 2010 Cents
(a) Basic earnings per share		
Basic earnings per share	(19.1)	(0.8)
(b) Diluted earnings per share		
Diluted earnings per share	(19.1)	(0.8)

(c) Reconciliations of earnings used in calculating earnings per share

	Group 2011 \$'000	Restated * 2010 \$'000
Profit/(loss) for the year	(75,887)	(3,909)
Profit attributed to non-controlling interest	-	-
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(75,887)	(3,909)

(d) Weighted average number of shares used as the denominator

	Group 2011 Number 000s	2010 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	397,451	392,052
Adjustments for calculation of diluted earnings per share:		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	397,451	392,052

* See changes in accounting policy - note 2(Z)(ii)

30 Reconciliation of profit after income tax to net cash inflow from operating activities

	Group		Parent	
	2011	Restated *	2011	2010
	\$'000	\$'000	\$'000	\$'000
Profit/(loss) for the year	(75,887)	(3,909)	(92,684)	(10,792)
Depreciation and amortisation	22,403	15,670	228	294
Deferred tax	4,751	760	(2,897)	302
Net fair value loss on convertible bonds	6,399	1,576	-	-
Fair value adjustment of financial asset	742	-	-	-
Impairment of loan to related party - principal	13,000	-	-	-
Impairment of loan to related party - interest	1,550	-	-	-
Impairment of investment in associate	77,088	-	-	-
Loss/(gain) on investment held in associate	-	144	-	-
Exploration and evaluation costs expensed	3,434	30,697	-	-
Impairment of related party loans and investment in subsidiaries	-	-	96,618	6,738
Share of net loss of associate	-	11,470	-	-
Share based payment expense	488	368	488	368
Net foreign exchange differences	11,005	8,010	8,623	7,015
Non-cash dividend	-	-	(17,926)	(10,346)
Other	249	1,362	-	(773)
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	9,270	(7,343)	43	(835)
Increase/(decrease) in trade creditors	(5,890)	(11,410)	611	354
Net cash inflow from operating activities	68,602	47,395	(6,896)	(7,675)

* See changes in accounting policy - note 2(Z)(ii)

31 Financial risk management

Exposure to credit, interest rate, foreign currency, equity price, commodity price and liquidity risk arises in the normal course of the Group's business.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, convertible bond, oil sales and capital commitments that are denominated in a currency other than the Company's functional currency, New Zealand dollars (\$), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 11, 12, 14, and 23.

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests.

(iii) Concentrations of interest rate exposure

The Group's main interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults.

Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short term cash deposits, trade receivables and a convertible bond issued to Pike River Coal Limited (In Receivership).

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties.

The Group is exposed to a significant credit risk through its convertible bond and short term loan to Pike River Coal Limited (In Receivership). This exposure is disclosed in notes 12 and 14.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

31 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has liquid funds and debt facilities in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all financial liabilities and for derivatives that are settled on a gross cash flow basis:

GROUP	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000	Contractual cash flows \$'000
30 June 2011						
Secured borrowings – principal and interest *	3,817	12,967	19,365	32,947	-	69,096
Payables	<u>15,319</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,319</u>
Total non-derivative liabilities	<u>19,136</u>	<u>12,967</u>	<u>19,365</u>	<u>32,947</u>	<u>-</u>	<u>84,415</u>
	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000	Contractual cash flows \$'000
30 June 2010						
Secured borrowings – principal and interest *	1,654	3,441	16,887	47,277	-	69,259
Payables	<u>20,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,797</u>
Total non-derivative liabilities	<u>22,451</u>	<u>3,441</u>	<u>16,887</u>	<u>47,277</u>	<u>-</u>	<u>90,056</u>
	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000	Contractual cash flows \$'000
PARENT						
30 June 2011						
Payables	<u>1,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,691</u>
Total non-derivative liabilities	<u>1,691</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,691</u>
	6 months or less \$'000	6-12 months \$'000	1-2 years \$'000	2-5 years \$'000	More than 5 years \$'000	Contractual cash flows \$'000
30 June 2010						
Payables	<u>1,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,361</u>
Total non-derivative liabilities	<u>1,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,361</u>

* The Group has a project finance facility which is secured over the Group's Kupe assets. The facility was drawn to \$63.3 million at 30 June 2011 and is due to be progressively repaid over the period to expiry of the facility on 31 March 2015. The facility limit is determined by a borrowing base calculation which is updated every six months. The above repayment schedule is based on current borrowing base calculations. The borrowing base is subject to variation based on future operating performance of the Kupe field and changes in reserves and product pricing assumptions.

(d) Capital management

The Group manages its capital through the use of cash flow and corporate forecasting models to determine its future capital requirements, and maintains a flexible capital structure which allows access to debt and equity markets to draw upon and repay capital as required. In July 2009 the company established a Dividend Reinvestment Plan which applies to dividends declared after 29 July 2009. The Group has an adequate capital base and significant cash reserves from which it can pursue its growth aspirations.

31 Financial risk management (continued)

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, equity securities and currency risks. The Group's exposure to these risks is described in note 31(a).

The Group's estimated short term impacts of fluctuations in these areas of risk are summarised below:

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at balance date would be to decrease the Group profit before tax by \$4.8 million and decrease the foreign currency translation reserve in equity by \$1.1 million (2010: \$4.8 million decrease on profit before tax and \$0.7 million decrease in the foreign currency translation reserve).

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by \$1.5 million (2010: \$1.4 million increase), based on maintaining current cash balances.

The impact of an increase in the value of equity securities held by the Group at balance date, which are categorised as fair value through other comprehensive income, by 5% would increase the revaluation reserve in equity by \$0.8 million (2010: \$0.9 million increase).

(f) Recognised assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

Derivative contracts classified as fair value through profit and loss are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

31 Financial risk management (continued)

(g) Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Effective 1 July 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the group's assets that are measured at fair value. The parent has no assets or liabilities that are measured at fair value.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Group - At 30 June 2011				
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Convertible Bond - recoverable fair value	-	-	35,103	35,103
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	15,705	-	-	15,705
Coal Option Contract	-	-	-	-
Total assets measured at fair value	15,705	-	35,103	50,808
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Group - At 30 June 2010				
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Convertible Bond - equity option	-	-	3,917	3,917
Available for sale financial assets	-	-	-	-
Shares held in Pan Pacific Petroleum NL	18,923	-	-	18,923
Coal Option Contract	-	-	721	721
Total assets measured at fair value	18,923	-	4,638	23,561

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily NZX 50 equity investments classified as available for sale financial assets.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

31 Financial risk management (continued)

- In 2010 the fair value of the equity option component of the convertible bond with Pike River Coal Limited (In Receivership) was valued using the Black-Scholes option valuation method. This valuation technique uses both observable and unobservable market inputs. The valuation of the equity option takes into account the exercise price on maturity, the term of the convertible bond, the conversion price at valuation date, expected price volatility of the underlying shares, the expected dividend yield and the risk free interest rate. The unobservable market inputs used for the valuation are the expected volatility that is based on historic volatility of the Pike River Coal Limited share price and the expected dividend yield.

- In 2010 the fair value of the coal contract option with Pike River Coal Limited (In Receivership) has been recognised with reference to an independent consultancy report commissioned by Pike River Coal Limited. The coal option was valued in the report based on the determination of what an active market participant may pay to acquire such an option. The valuation used two methodologies in determining the valuation; (a) valuation based on recent market transactions, and (b) valuation based on future coal price "protection".

- In 2011 the fair value of the convertible bond with Pike River Coal Limited (In Receivership) was valued based on the best estimate of recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds.

The following table presents the changes in fair value of level 3 instruments.

Group - At 30 June 2011

	Coal Option Contract	Convertible Bond – equity option	Convertible Bond – recoverable fair value	Total
	\$'000	\$'000	\$'000	\$'000
Opening balance	721	3,917	-	4,638
Purchases	-	-	-	-
Gains/(losses) recognised in Other Comprehensive Income	-	-	-	-
Gains/(losses) recognised on settlement date in the Income Statement	-	-	-	-
Gains/(losses) recognised in the Income Statement	(721)	(3,917)	-	(4,638)
Transfer from loans and receivables	-	-	35,103	35,103
Closing balance	-	-	35,103	35,103
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	(721)	(3,917)	-	(4,638)

Group - At 30 June 2010

	Coal Option Contract	Convertible Bond - equity option	Total
	\$'000	\$'000	\$'000
Opening balance	-	-	-
Purchases	742	5,303	6,045
Gains/(losses) recognised in Other Comprehensive Income	(21)	-	(21)
Gains/(losses) recognised on settlement date in the Income Statement	-	1,970	1,970
Gains/(losses) recognised in the Income Statement	-	(3,356)	(3,356)
Closing balance	721	3,917	4,638
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	-	(1,386)	(1,386)

31 Financial risk management (continued)

(h) Financial instruments by category

Group	Fair value through profit or loss \$'000	Fair value through other comprehensive income \$'000	Amortised cost \$'000	Total at carrying value \$'000
At 30 June 2011				
Assets				
Cash and cash equivalents		-	149,360	149,360
Receivables		-	23,019	23,019
Convertible bond	35,103	-	-	35,103
Other financial assets	-	15,662	43	15,705
	<u>35,103</u>	<u>15,662</u>	<u>172,421</u>	<u>223,186</u>
Liabilities				
Payables	-	-	15,319	15,319
Borrowings	-	-	63,324	63,324
	<u>-</u>	<u>-</u>	<u>78,643</u>	<u>78,643</u>

Group	Held for trading \$'000	Available for sale financial asset \$'000	Loans and receivables \$'000	Amortised cost \$'000	Total at carrying value \$'000
At 30 June 2010					
Assets					
Cash and cash equivalents	-	-	142,404	-	142,404
Receivables	-	-	20,167	-	20,167
Convertible bond	3,917	-	36,016	-	39,933
Other financial assets	-	19,644	43	-	19,687
	<u>3,917</u>	<u>19,644</u>	<u>198,630</u>	<u>-</u>	<u>222,191</u>
Liabilities					
Payables	-	-	-	20,797	20,797
Borrowings	-	-	-	62,805	62,805
	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,602</u>	<u>83,602</u>

The Group and Parent early adopted NZ IFRS 9 (2009) Financial Instruments effective from 1 July 2010 which reduced the number classifications of financial assets.

31 Financial risk management (continued)

(h) Financial instruments by category(continued)

Parent	Amortised cost \$'000	Total carrying value \$'000
At 30 June 2011		
Assets		
Cash and cash equivalents	101,880	101,880
Receivables and advances to related parties	<u>121,615</u>	<u>121,615</u>
	223,495	223,495
Liabilities		
Payables	<u>1,692</u>	<u>1,692</u>
	1,692	1,692

Parent	Loans and receivables \$'000	Amortised cost \$'000	Total carrying value \$'000
At 30 June 2010			
Assets			
Cash and cash equivalents	107,606	-	107,606
Receivables and advances to related parties	<u>204,468</u>	<u>-</u>	<u>204,468</u>
	312,074	-	312,074
Liabilities			
Payables	<u>-</u>	<u>1,361</u>	<u>1,361</u>
	-	1,361	1,361

The Group and Parent early adopted NZ IFRS 9 (2009) Financial Instruments effective from 1 July 2010 which reduced the number classifications of financial assets.

32 Related party transactions

(a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

(b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: A R Radford; R F Meyer (Retired on 27 October 2010); P G Foley; A T N Knight; S J Rawson; D J Salisbury, D R Scoffham and P W Griffiths.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2011 and 30 June 2010 is set out below. The key management personnel are all the management and directors (executive and non-executive) of the Company.

	Short-term benefits \$'000	Post-employ- ment benefits \$'000	Other long-term benefits \$'000	Termination benefits \$'000	Share-based payments \$'000	Total \$'000
2011						
Management	1,851	-	-	-	185	2,036
Directors	1,185	-	-	-	120	1,305
	<u>3,036</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>305</u>	<u>3,341</u>
2010						
Management	1,616	-	-	-	96	1,712
Directors	1,025	-	-	-	166	1,191
	<u>2,641</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>262</u>	<u>2,903</u>

(d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 33.

Mr A R Radford and Mr R F Meyer were during the year ended 30 June 2011 directors of Pike River Coal Limited (In Receivership) (PRCL), which was an associate company until the date of its receivership on 13 December 2010. Mr A R Radford resigned as a director of PRCL during the year. Details of transactions with PRCL during the year are set out in (e) below.

Mr A R Radford is a director of and holds shares in Pan Pacific Petroleum NL (PPP).

Mr P G Foley is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison is a legal services provider to the Group on normal commercial terms and conditions.

A company associated with Mr S J Rawson provided consulting services to the Group during the reporting year to the value of \$9,000 in relation advice on the exploration and production industry. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

A company associated with Mr A T N Knight provided consulting services to the Group during the reporting period to the value of \$95,000 in relation to PRCL financing matters. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in note 12, 14, 15, 16, 17 and 22 as subsidiaries, joint ventures and associates.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured, except for the outstanding balances from PRCL noted below.

32 Related party transactions (continued)

During the year ended 30 June 2011 the Group had the following transactions with associate PRCL.

Short Term Funding

The Group provided short term funding to PRCL, on commercial terms, of NZ\$25 million with \$12 million being advanced as secured debt. At 30 June 2011 the full facility remains outstanding. The Group earned NZ\$3.5 million during the year from fees and interest on the short term facility. At 30 June 2011 NZ\$2.8 million of accrued interest is outstanding with a provision for doubtful debts of \$1.6 million relating to the unsecured component of the debt. Refer to notes 7 and 12 for details of impairments of unsecured components of the loan and interest accrued.

Convertible Bond

During the year to 30 June 2011 the Group earned US\$3.2 million of interest and NZ\$0.7 million of facility fees on the US\$28.9 million convertible bond facility that was fully drawn by PRCL in May 2010. At 30 June 2011, US\$2.5 million of the interest earned and NZ\$0.7 million of facility fees were outstanding.

There have been no other material transactions with related parties during the year.

33 Share-based payments

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non-executive Director) of the Company to whom an offer to participate is made by the Executive Appointments and Remuneration Committee. The Executive Appointments and Remuneration Committee, in its discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

1. Restriction periods

Each partly paid share is issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This is usually 2 years. There is also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

2. Issue price

The issue price of each partly paid share is set at the time the offer is made to the participant and is currently set at the lesser of:

- a 20% premium to the Average Market Price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and
- the last sale price of the Company's ordinary shares on the Business Day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Company's ordinary shares over the 20 Business Days prior to the Final Date).

The pricing model ensures that the participant does not receive a share at a discount to market price at the time the final payment is made but does provide some protection if the market price reduces after the original offer date.

Participants are required to pay \$0.01 per share at the time of issue.

3. Rights

The rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Company. The partly paid shares rank equally with the ordinary shares in the Company. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Company, are a fraction equal to the proportion represented by the amount paid up in respect of the share as against the issue price set under the ESOP.

33 Share-based payments (continued)

Grant Date	Final date	Exercise price	Balance at start of the year 000s	Issued during the period 000s	Sold during the period 000s	Forfeited during the period 000s	Balance at end of the year 000s	Fully vested at end of the year 000s
7 Mar 2006	20 Jan 2011	\$1.09	200.0	-	-	(200.0)	-	-
28 Nov 2005	28 Nov 2010	\$1.14	75.0	-	(75.0)	-	-	-
18 Jul 2006	18 Jul 2011	\$1.20	25.0	-	-	-	25.0	25.0
31 Jul 2006	31 Jul 2011	\$1.21	45.0	-	-	-	45.0	45.0
1 Aug 2006	1 Aug 2011	\$1.19	75.0	-	-	-	75.0	75.0
19 Sep 2006	19 Sep 2011	\$1.08	100.0	-	-	-	100.0	100.0
25 Jan 2007	20 Jan 2011	\$1.00	20.0	-	-	(20.0)	-	-
25 Jan 2007	18 Jul 2011	\$1.00	2.5	-	-	-	2.5	2.5
25 Jan 2007	19 Sep 2011	\$1.00	10.0	-	-	-	10.0	10.0
25 Jan 2007	1 Aug 2011	\$1.00	7.5	-	-	-	7.5	7.5
02 Apr 2007	02 Apr 2012	\$1.06	500.0	-	-	-	500.0	500.0
17 Sep 2007	16 Aug 2012	\$1.23	100.0	-	-	-	100.0	100.0
08 Oct 2007	08 Oct 2012	\$1.22	75.0	-	(75.0)	-	-	-
05 Nov 2007	05 Nov 2012	\$1.26	150.0	-	-	-	150.0	150.0
12 Nov 2007	12 Nov 2012	\$1.26	200.0	-	-	-	200.0	200.0
24 Nov 2007	24 Nov 2012	\$1.28	600.0	-	-	-	600.0	600.0
30 Oct 2008	30 Oct 2013	\$1.43	400.0	-	-	-	400.0	400.0
12 Jan 2009	12 Jan 2014	\$1.53	100.0	-	-	-	100.0	100.0
30 Jul 2009	2 Mar 2014	\$1.57	200.0	-	-	-	200.0	200.0
30 Jul 2009	14 Apr 2014	\$1.67	300.0	-	-	-	300.0	300.0
30 Jul 2009	15 Jun 2014	\$1.87	150.0	-	-	-	150.0	150.0
30 Jul 2009	23 Jun 2014	\$1.91	200.0	-	-	-	200.0	200.0
10 Nov 2009	12 Oct 2014	\$1.72	300.0	-	-	-	300.0	-
5 Nov 2009	2 Nov 2014	\$2.04	200.0	-	-	-	200.0	-
24 Dec 2009	24 Nov 2014	\$2.04	230.0	-	-	-	230.0	-
13 Jan 2010	23 Nov 2014	\$2.04	150.0	-	-	-	150.0	-
7 Sep 2010	7 Sep 2015	\$1.44	-	1,225.0	-	-	1,225.0	-
12 Nov 2010	18 Oct 2015	\$1.58	-	50.0	-	-	50.0	-
9 Dec 2010	23 Nov 2015	\$1.52	-	150.0	-	-	150.0	-
			<u>4,415.0</u>	<u>1,425.0</u>	<u>(150.0)</u>	<u>(220.0)</u>	<u>5,470.0</u>	<u>3,165.0</u>
Weighted average exercise price			\$1.47	\$1.45	\$1.18	\$1.08	\$1.49	\$1.38

Share based payments are recognised based on the fair value of partly paid shares offered to employees at the issue date. The fair value at issue date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the partly paid shares, the vesting criteria, the non-tradable nature of the partly paid shares, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. The assessed fair value (for NZ IFRS 2 purposes) at issue date of partly paid share issued during the year ended 30 June 2011 was 7 cents to 25 cents per share (30 June 2010 was 33 cents to 41 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2011, in addition to the issue price, issue date and final date as summarised in the above table, include:

- (a) shares are paid to \$0.01 on issue
- (b) partly paid shares have a five year life and are exercisable after two years from the issue date
- (c) market price on issue date: \$0.86 - \$1.28
- (d) expected price volatility of the company's shares: 40%
- (e) expected gross dividend per share: 5.6% - 8.3%
- (f) risk free interest rate on the issue date: 3.17% - 3.18%

The expected price volatility is based on the historic volatility.

34 Commitments and contingent assets & liabilities

(a) Exploration expenditure commitments

In order to maintain the various permits in which the Group is involved the Group has ongoing operational expenditure as part of its normal operations. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.

(b) Operating leases and commitments

The Group leases premises, plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

	Group		Parent	
	2011 \$'000	2010 \$'000	2011 \$'000	2010 \$'000
Within one year	339	388	339	388
Later than one year and not later than five years	1,355	-	1,355	-
Later than five years	308	-	308	-
	<u>2,002</u>	<u>388</u>	<u>2,002</u>	<u>388</u>

During the year ended 30 June 2011 \$384,000 was recognised as an expense in the income statement in respect of operating leases (2010: \$384,000).

Production commitments

The Company is committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US\$14.3 million.

(c) Kupe overriding royalty interest

The Group has an overriding royalty in relation to production from the Kupe field. As at balance date the Group was in dispute with the parties that have an obligation to pay the overriding royalty with respect to the basis of the calculation. At balance date the Kupe overriding royalty interest was a contingent asset as a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

(d) Pike River Coal Limited (In Receivership) (PRCL)

NZOG wholly owned subsidiary NZOG 38483 Limited has provided two indemnities in favour of the receivers in connection with the receivership of PRCL. The first indemnity, given on appointment, essentially covers liability suffered by the receivers due to any defect in their appointment. The second indemnity, given at the time of handover of the PRCL mine by NZ Police to the receivers, indemnifies the receivers in respect of all costs and liability incurred in implementation of the Mine Stabilisation Plan dated 17 January 2010. Despite the above indemnities, the receivers have a priority entitlement to claim their costs and liabilities against the assets of PRCL and in fact, to date, all of their costs have been so satisfied.

At balance date the indemnities provided to the receivers of PRCL are contingent liabilities.

(e) Other contingent liabilities

As at 30 June 2011 the Company had no other contingent liabilities (2010:\$Nil).



Independent Auditor's Report

To the Shareholders of New Zealand Oil & Gas Limited

Report on the Company and Group Financial Statements

We have audited the accompanying financial statements of New Zealand Oil & Gas Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 1 to 52. The financial statements comprise the statements of financial position as at 30 June 2011, the income statements and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' Responsibility for the Company and Group Financial Statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Financial Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the company and group in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.



Opinion

In our opinion the financial statements on pages 1 to 52:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2011 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Oil & Gas Limited as far as appears from our examination of those records.

KPMG

23 August 2011

Wellington