

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 2012
Previous Reporting Period	6 months to 31 December 2011
Comparative Reporting Period	12 months to 30 June 2011

	Amount (NZ\$ 000s)		Increase / (decrease)
	12 months to 30 June 2012	12 months to 30 June 2011	%
Revenue from ordinary activities	116,375	106,473	9%
Surplus / (deficit) from ordinary activities after tax attributable to security holders	19,887	(76,491)	126%
Net profit / (loss) attributable to security holders	19,887	(76,491)	126%
	NZ\$	NZ\$	%
Net Tangible Assets per share	0.89	0.86	4%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final Dividend	6 cents	Fully imputed

Record Date	14 September 2012
Dividend Payment Date	28 September 2012

Comments:	Accompanying this announcement are the company's audited financial statements, for the year ended 30 June 2012, 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
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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 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

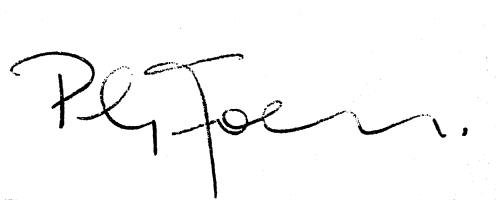
Audited Financial Statements

Refer to accompanying Appendix 1

New Zealand Oil & Gas Limited Consolidated Financial statements for the year ended 30 June 2012

The Board of Directors of New Zealand Oil & Gas Limited authorised these Consolidated Financial Statements for issue on 22 August 2012.

For and on behalf of the Board.



PG Foley
Director

22 August 2012



AR Radford
Director

22 August 2012

New Zealand Oil & Gas Limited
Consolidated Income Statement
For the year ended 30 June 2012

	Notes	Group		Parent	
		2012 \$'000	Restated* 2011 \$'000	2012 \$'000	2011 \$'000
Revenue	4	116,375	106,473	-	-
Operating costs	5	(52,775)	(55,070)	-	-
Gross profit		63,600	51,403	-	-
Other income	4	921	2,430	66	783
Exploration and evaluation costs expensed	17	(2,389)	(3,434)	-	-
Other expenses	6	(10,005)	(11,070)	(10,326)	(10,445)
Results from operating activities		52,127	39,329	(10,260)	(9,662)
Finance cost	7	(19,442)	(113,325)	(13,692)	(105,241)
Finance income	7	11,791	10,614	10,928	19,322
Net finance income/(costs)	7	(7,651)	(102,711)	(2,764)	(85,919)
Profit/(loss) before income tax and royalties		44,476	(63,382)	(13,024)	(95,581)
Royalties expense	8	(12,102)	(7,981)	-	-
Income tax (expense)/benefit	9	(12,487)	(5,128)	(1,684)	2,897
Profit/(loss) for the year		19,887	(76,491)	(14,708)	(92,684)

Profit/(loss) for the year attributable to:

Equity holders of Parent	19,887	(76,491)
	19,887	(76,491)

		Cents	Cents
Earnings per share attributable to shareholders:			
Basic earnings per share	26	5.0	(19.3)
Diluted earnings per share	26	5.0	(19.3)
Net Tangible Asset Backing per share		89	86

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

The above consolidated income statement should be read in conjunction with the accompanying notes on pages 8 to 49.

New Zealand Oil & Gas Limited
Consolidated Statement of Comprehensive Income
For the year ended 30 June 2012

	Notes	Group		Parent	
		2012 \$'000	Restated* 2011 \$'000	2012 \$'000	2011 \$'000
Profit/(loss) for the year		19,887	(76,491)	(14,708)	(92,684)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	(658)	(150)	-	-
Foreign currency translation differences	25	1,189	(8,828)	-	-
Other comprehensive income for the year		531	(8,978)	-	-
Total comprehensive income for the year		20,418	(85,469)	(14,708)	(92,684)
Total comprehensive income for the year:					
Attributable to equity holders of the Parent		20,418	(85,469)		

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

The above statement of consolidated statement of comprehensive income should be read in conjunction with the accompanying notes on pages 8 to 49.

New Zealand Oil & Gas Limited
Consolidated Statement of Financial Position
As at 30 June 2012

		2012	Group Restated*	1 July 2010*	2012	Parent 2011
	Notes	\$'000	2011 \$'000	\$'000	\$'000	\$'000
ASSETS						
Current assets						
Cash and cash equivalents	11	209,221	149,360	142,404	174,790	101,880
Receivables and prepayments	12	20,096	23,733	20,793	16,346	121,673
Inventories	13	1,340	869	140	-	-
Current tax receivables		-	1,980	1,842	4,750	665
Convertible Bond	14	2,499	35,103	-	-	-
Total current assets		233,156	211,045	165,179	195,886	224,218
Non-current assets						
Convertible Bond	14	-	-	39,933	-	-
Investment in associates		-	-	77,088	-	-
Evaluation and exploration assets	17	14,893	7,322	6,641	-	-
Oil and gas assets	18	218,537	238,841	267,624	-	-
Property, plant and equipment		366	281	336	321	281
Intangible assets		35	41	166	35	41
Net deferred tax asset	23	-	-	-	72	1,756
Other financial assets	19	18,052	15,705	19,687	57,754	50,171
Total non-current assets		251,883	262,190	411,475	58,182	52,249
Total assets		485,039	473,235	576,654	254,068	276,467
LIABILITIES						
Current liabilities						
Payables	20	16,959	15,319	20,797	1,205	1,691
Borrowings	21	18,040	14,644	3,217	-	-
Current tax liabilities		2,104	-	-	-	-
Total current liabilities		37,103	29,963	24,014	1,205	1,691
Non-current liabilities						
Borrowings	21	28,760	48,680	59,588	-	-
Restoration and rehabilitation provision	22	32,392	25,645	29,221	-	-
Net deferred tax liability	23	31,773	27,149	22,082	-	-
Total non-current liabilities		92,925	101,474	110,891	-	-
Total liabilities		130,028	131,437	134,905	1,205	1,691
Net assets		355,011	341,798	441,749	252,863	274,776
EQUITY						
Share capital	24	358,584	358,233	353,741	358,584	358,233
Reserves	25	(17,243)	(17,420)	(8,775)	6,810	7,164
Retained earnings		13,670	985	96,783	(112,531)	(90,621)
Total equity		355,011	341,798	441,749	252,863	274,776

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

The above consolidated statement of financial position should be read in conjunction with the accompanying notes on pages 8 to 49.

New Zealand Oil & Gas Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2012

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 2010		353,741	(8,697)	99,166	444,210
Prior period adjustment *		-	(78)	(2,383)	(2,461)
Restated balance at 1 July 2010		353,741	(8,775)	96,783	441,749
Comprehensive income					
Profit/(loss) for the year		-	-	(76,491)	(76,491)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	-	(150)	-	(150)
Foreign currency translation differences	25	-	(8,828)	-	(8,828)
Total comprehensive income		-	(8,978)	(76,491)	(85,469)
Transactions with owners					
Shares issued	24	7,009	-	-	7,009
Buy back of issued shares	24	(2,517)	-	-	(2,517)
Share based payment	25	-	488	-	488
Transfer of expired share based payments during the year	25	-	(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	(17,420)	985	341,798
Balance at 1 July 2011		358,233	(17,420)	985	341,798
Comprehensive income					
Profit/(loss) for the year		-	-	19,887	19,887
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	25	-	(658)	-	(658)
Foreign currency translation differences	25	-	1,189	-	1,189
Total comprehensive income		-	531	19,887	20,418
Transactions with owners					
Shares issued	24	2,426	-	-	2,426
Buy back of issued shares	24	(2,075)	-	-	(2,075)
Share based payment	25	-	288	-	288
Transfer of expired share based payments during the year	25	-	(642)	642	-
Dividend paid (2 cents per ordinary share)		-	-	(7,844)	(7,844)
Supplementary dividend		-	-	(240)	(240)
Foreign investor tax credit		-	-	240	240
Balance at 30 June 2012		358,584	(17,243)	13,670	355,011

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

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 8 to 49.

New Zealand Oil & Gas Limited
Consolidated Statement of Changes in Equity
For the year ended 30 June 2012
(continued)

PARENT	Notes	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
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	24	7,009	-	-	7,009
Buy back of issued shares	24	(2,517)	-	-	(2,517)
Share based payment	25	-	488	-	488
Transfer of expired share based payments during the year	25	-	(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
Balance at 1 July 2011		358,233	7,164	(90,621)	274,776
Comprehensive income					
Profit/(loss) for the year		-	-	(14,708)	(14,708)
Total comprehensive income		-	-	(14,708)	(14,708)
Transactions with owners					
Shares issued	24	2,426	-	-	2,426
Buy back of issued shares	24	(2,075)	-	-	(2,075)
Share based payment	25	-	288	-	288
Transfer of expired share based payments during the year	25	-	(642)	642	-
Dividend paid (2 cents per ordinary share)		-	-	(7,844)	(7,844)
Supplementary dividend		-	-	(240)	(240)
Foreign investor tax credit		-	-	240	240
Balance at 30 June 2012		358,584	6,810	(112,531)	252,863

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes on pages 8 to 49.

New Zealand Oil & Gas Limited
Consolidated Statement of Cash Flow
For the year ended 30 June 2012

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities				
Receipts from customers	108,317	119,353	-	-
Interest received	7,206	3,196	2,849	1,459
Other revenue	131	1,490	57	89
Production and marketing expenditure	(24,940)	(31,829)	-	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)	(11,085)	(12,783)	(10,229)	(8,444)
Royalties	(10,538)	(8,265)	-	-
Interest paid	(2,492)	(2,557)	-	-
Income taxes paid	(3,437)	(3)	(4,750)	-
Net cash inflow / (outflow) from operating activities	63,162	68,602	(12,073)	(6,896)
Cash flows from investing activities				
Receipt of loan repayment from Pike River Coal Ltd (In Receivership)	37,656	-	-	-
Exploration and evaluation expenditure	(9,506)	(3,768)	-	-
Oil & gas expenditure	(1,352)	(4,106)	-	-
Subsidiary shares issued to NZOG	-	-	(6,327)	-
Purchase of property, plant and equipment	(229)	(48)	(164)	(48)
Loan advance to Pike River Coal Ltd (In Receivership)	(6,843)	(25,000)	-	-
Loan from/(to) wholly owned subsidiaries	-	-	97,388	25,474
Security bond	(2,244)	-	(1,232)	-
Net cash inflow / (outflow) from investing activities	17,482	(32,922)	89,665	25,426
Cash flows from financing activities				
Issues of shares	29	387	29	387
Borrowings	(16,525)	182	-	-
Buy back of issued shares	(2,075)	(2,517)	(2,075)	(2,517)
Dividend paid	(5,685)	(13,503)	(5,685)	(13,503)
Net cash inflow / (outflow) from financing activities	(24,256)	(15,451)	(7,731)	(15,633)
Net increase / (decrease) in cash and cash equivalents	56,388	20,229	69,861	2,897
Cash and cash equivalents at the beginning of the year	149,360	142,404	101,880	107,606
Effects of exchange rate changes on cash and cash equivalents	3,473	(13,273)	3,049	(8,623)
Cash and cash equivalents at end of year	209,221	149,360	174,790	101,880

The above consolidated statement of cash flow should be read in conjunction with the accompanying notes on pages 8 to 49.

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 2012 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 22 August 2012.

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 and shares held in Pan Pacific Petroleum NL.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD or \$), unless otherwise stated, 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 convertible bond and short-term funding arrangement issued to Pike River Coal Limited (In Receivership), (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 17 and 18)

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 22)

The key assumption concerning the recoverability of deferred tax assets is the ability of entities in the Group to generate future taxable income. (Refer to note 23)

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 funding arrangement issued to PRCL include an assessment of the best estimate of recovery using a range of applied probabilities to the estimated future cash flows. (Refer to notes 12, 14 and 19)

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 measures 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.

(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.

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.

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.

2 Summary of significant accounting policies (continued)

(iii) Oil and gas interests

Oil and gas interests are those joint arrangements established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the oil and gas interests' 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 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.

A financial instrument is recognised if the Group becomes 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.

2 Summary of significant accounting policies (continued)

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.

Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments which comprise of cash at bank, short-term deposits and deposits at call with an original maturity of six months or less. Cash also includes the Group's share of cash held in oil and gas interests and restricted cash held under the Group's interest bearing borrowing arrangements.

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 licence work programme commitments being met.

Performance bonds

Performance bonds include amounts held as a bond under the terms of entering joint studies and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreements and production sharing contracts.

Other

Accounting for finance income and expenses 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.

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.

(iii) Share capital

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.

2 Summary of significant accounting policies (continued)

(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.

Capitalised exploration and evaluation expenditure are impaired and an impairment loss is recognised 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 determining technical feasibility and commercial viability of an area of interest exploration and evaluation assets for the area of interest in question 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.

Expenditure incurred prior to obtaining the rights of tenure in relation to separate areas of interest are expensed in the period in which they are incurred.

(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 each reporting date.

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

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.

2 Summary of significant accounting policies (continued)

(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, 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 & technical equipment	2-6 years

Depreciation methods, useful lives and residual values are reassessed at each 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.

(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.

2 Summary of significant accounting policies (continued)

(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 and the amount can be reliably measured.

(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 non-current liabilities. 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.

2 Summary of significant accounting policies (continued)

(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 Company's right to receive payment is established.

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 Chief Executive Officer (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 is 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 is determined by the use of a valuation technique.

The fair value of equity options is 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 during the year

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

- *NZIAS 24, Related Party Disclosures (revised 2009)* - (effective from annual periods beginning on or after 1 January 2011)
- *NZ IFRS 7, Financial Instruments: Disclosures (Improvements 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 IFRS 9 (2009), Financial Instruments* – (adopted from 1 July 2010 prior to its effective date of 1 January 2013).

(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 accounting periods beginning on or after 1 January 2012 or later periods but which the Company has not early adopted:

- *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)

2 Summary of significant accounting policies (continued)

- *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)

The impact of these accounting policies has not been assessed at this point in time.

(Z) Changes in accounting policies

There have been no changes in accounting policies during the current year, with the exception of the adoption of the revised accounting standards that are listed in note 2(X). The adoption of the revised accounting standards have not resulted in a significant change to the Groups accounting policies from prior years. All other accounting policies have been applied on a basis consistent with the prior year.

(i) Restatement of Comparatives

A restatement has been made to the 2011 Group comparative figures to correct an error relating to the restoration and rehabilitation provision. In previous years the Group determined the provision by discounting expected future expenditure at discount rates of 10-12%. The provision should be determined by discounting expected future expenditure at an appropriate risk free interest rate relevant to the currency of the expected expenditure.

Impact on Restated Statement of Financial Position – 1 July 2010

	Original \$000	Restated \$000	Restatement \$000
ASSETS			
Oil and gas assets	253,917	267,624	13,707
LIABILITIES			
Restoration and rehabilitation provision	11,998	29,221	17,223
Net deferred tax liabilities	23,137	22,082	(1,055)
Impact on Net Assets			2,461
EQUITY			
Reserves	(8,697)	(8,775)	(78)
Retained earnings	99,166	96,783	(2,383)
Impact on Equity			(2,461)

Impact on Restated Statement of Financial Position – 30 June 2011

	Original \$000	Restated \$000	Restatement \$000
ASSETS			
Oil and gas assets	232,579	238,841	6,262
LIABILITIES			
Restoration and rehabilitation provision	15,715	25,645	9,930
Net deferred tax liabilities	28,176	27,149	(1,027)
Impact on Net Assets			2,641
EQUITY			
Reserves	(17,766)	(17,420)	(346)
Retained earnings	3,972	985	2,987
Impact on Equity			2,641

2 Summary of significant accounting policies (continued)

(i) Restatement of Comparatives (continued)

Impact on Restated Income Statement – 30 June 2011

	Original \$000	Restated \$000	Restatement \$000
Operating costs	(53,805)	(55,070)	(1,265)
Net finance income/(costs)	(113,861)	(113,325)	536
Income tax (expense)/benefit	(5,279)	(5,128)	151
Profit/(loss) for the year	(75,887)	(76,491)	(604)
Foreign currency translation differences	(9,252)	(8,828)	424
Impact on Total Comprehensive Income for the year	(85,289)	(85,469)	(180)
	Cents	Cents	Cents
Earnings per share attributable to shareholders – Basic and Diluted	(19.1)	(19.3)	(0.2)

The increase in provision has been added to the related asset in accordance with accounting policy – refer to note 2(M)(ii).

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: Development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand.

Kupe Field: Development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of 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, Tunisia and in Indonesia.

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.

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 investment in exploration and evaluation assets in Tunisia and Indonesia.

2012	Oil & Gas assets - Tui \$'000	Oil & Gas assets - Kupe \$'000	Oil & Gas assets - Exploration \$'000	Investments \$'000	Other & unallocated \$'000	Total \$'000
Sales to external customers - NZ	-	37,175	-	-	-	37,175
Sales to external customers - other countries	42,040	37,160	-	-	-	79,200
Total sales revenue	42,040	74,335	-	-	-	116,375
Other income	-	791	-	-	130	921
Total revenue and other income	42,040	75,126	-	-	130	117,296
Segment result	20,435	31,854	(2,389)	(16,500)	(9,875)	23,525
Other reconciling items - Net finance income/(costs)						8,849
Profit/(loss) before income tax						32,374
Income tax (expense)/benefit						(12,487)
Profit/(loss) for the year						19,887
Segment assets	20,150	198,387	14,893	20,676	-	254,106
Other reconciling items						230,933
Total assets						485,039
Included in the segment result:						
Depreciation and amortisation expense	6,769	21,189	-	-	147	28,105
Impairment of loan to Pike River Coal Limited (In Receivership)	-	-	-	(16,500)	-	(16,500)

3 Segment information (continued)

Restated* 2011	Oil & Gas assets - Tui \$'000	Oil & Gas assets - Kupe \$'000	Oil & Gas assets - 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	15,746	29,029	(3,434)	(92,379)	(9,993)	(61,031)
Other reconciling items - Net finance income/(costs)						(10,332)
Profit/(loss) before income tax						(71,363)
Income tax (expense)/benefit						(5,128)
Profit/(loss) for the year						(76,491)
Segment assets	24,123	208,456	7,322	62,765	-	302,666
Other reconciling items						170,569
Total assets						473,235
Included in the segment result:						
Depreciation and amortisation expense	3,334	20,105	-	-	228	23,667
Impairment of loan to Pike River Coal Limited (In Receivership)	-	-	-	(14,550)	-	(14,550)
Impairment of investment in Pike River Coal Limited (In Receivership)	-	-	-	(77,088)	-	(77,088)

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

4 Income

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Revenue				
Petroleum sales	116,375	106,473	-	-
Total revenue	116,375	106,473	-	-
Other income				
Rental income	49	137	-	87
Carbon emission expenditure recovered	791	1,353	-	-
Other income	81	940	66	696
Total other income	921	2,430	66	783
Total income	117,296	108,903	66	783

5 Operating costs

	Group		Parent	
	2012	Restated*	2012	2011
	\$'000	\$'000	\$'000	\$'000
Production and sales marketing costs	20,030	20,876	-	-
Amortisation of production asset	27,958	23,439	-	-
Repairs and maintenance	2,769	8,352	-	-
Carbon emission expenditure	993	1,983	-	-
Insurance expenditure	1,657	1,608	-	-
Movement in inventory	(328)	(603)	-	-
Movement in stock over/(under) lift	(304)	(585)	-	-
Total operating costs	52,775	55,070	-	-

* See changes in accounting policy note 2(Z)(i)

6 Other expenses

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Classification of other expenses by nature				
Audit fees	159	139	133	130
Directors' fees	470	487	470	487
Legal fees	352	244	253	218
Consultants' fees	1,494	1,523	1,493	1,443
Employee expenses	4,878	4,750	5,157	4,750
Depreciation	98	100	80	100
Amortisation of Intangible assets	49	128	49	128
Share based payment expense	288	488	288	488
Donations	1	500	1	-
Other	2,216	2,711	2,402	2,701
Total other expenses	10,005	11,070	10,326	10,445

Remuneration of auditors

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Auditors' remuneration to KPMG comprises:				
Audit and review of financial statements	159	139	133	130
Non audit related services:				
Tax compliance services	100	97	100	97
Tax advisory services	236	329	236	329
Other assurance services	48	32	48	32
Total remuneration of auditors	543	597	517	588

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)

Notes	Group		Parent	
	2012 \$'000	Restated* 2011 \$'000	2012 \$'000	2011 \$'000
Finance costs				
Interest and finance charges	(2,942)	(3,555)	(1)	-
Exchange losses on foreign currency balances	-	(10,991)	-	(8,623)
Impairment of loan to Pike River Coal Limited (In Receivership) - principal (note 12)	(13,765)	(13,000)	-	-
Impairment of loan to Pike River Coal Limited (In Receivership) - interest (note 12)	(2,735)	(1,550)	-	-
Fair value adjustment of financial asset (note 19)	-	(742)	-	-
Impairment of investment in Pike River Coal Limited (In Receivership)	-	(77,088)	-	-
Net fair value loss on convertible bond (note 14)	-	(6,399)	-	-
Impairment of loans and investment in subsidiaries	-	-	(13,691)	(96,618)
Total finance costs	(19,442)	(113,325)	(13,692)	(105,241)
Finance income				
Interest income	7,265	10,614	3,752	1,396
Exchange gains on foreign currency balances	4,526	-	3,073	-
Dividend income	-	-	4,103	17,926
Total finance income	11,791	10,614	10,928	19,322
Net finance income/(costs)	(7,651)	(102,711)	(2,764)	(85,919)

* See changes in accounting policy note 2(Z)(i)

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	
	2012	Restated* 2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
(a) Income tax expense				
Current tax	7,761	-	-	-
Deferred tax (Refer note 23)	4,726	4,599	1,684	(2,897)
Under/(over) provided in prior years	-	529	-	-
Total income tax expense	12,487	5,128	1,684	(2,897)
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	44,476	(63,382)	(13,024)	(95,581)
Less: royalties expense	(12,102)	(7,981)	-	-
Profit/(loss) before income tax expense	32,374	(71,363)	(13,024)	(95,581)
Tax at the New Zealand tax rate of 28% (2011: 30%)	9,065	(21,409)	(3,647)	(28,674)
Tax effect of change in tax rate	-	(2,296)	-	(99)
Tax effect of amounts which are not deductible/(taxable):				
Foreign exchange adjustments	357	(1,141)	-	-
Impairment of financial assets	3,854	27,027	-	-
Dividends from wholly owned subsidiaries	-	-	(1,231)	(5,378)
Impairment of loans and investment in subsidiaries	-	-	3,833	28,985
Other expenses/(income)	(688)	1,136	426	154
	12,588	3,317	(619)	(5,012)
Under/(over) provision in prior years	(101)	1,811	(293)	(3,689)
Losses utilised/(transferred)	-	-	2,596	5,804
Income tax expense/(benefit)	12,487	5,128	1,684	(2,897)

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)(i)

10 Imputation credits

	Group		Parent	
Notes	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Imputation credit account				
Balance at beginning of year	7,369	15,044	212	204
Tax payments, net of refunds	3,439	-	4,750	-
Credits attached to dividend distributions	(4,883)	(7,675)	(3,125)	(7,675)
Credits attached to dividends received	1,758	-	1,758	7,683
Balance at end of year	7,683	7,369	3,595	212

11 Cash and cash equivalents

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Cash at bank and in hand	17,103	20,530	724	25
Deposits at call	7,259	25,452	1,775	2,114
Short-term deposits	172,291	99,741	172,291	99,741
Share of oil and gas interests' cash	12,568	3,637	-	-
Total cash and cash equivalents	209,221	149,360	174,790	101,880

Cash and cash equivalents denominated in currencies other than the presentation currency comprise \$57.1 million denominated in US dollars; NZ dollar equivalent \$71.8 million (2011: US dollars \$70.1 million; NZ dollar equivalent \$85.1 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 3.6% (2011: 0.1% and 3.7%).

(b) Restriction of use

Included in cash and cash equivalents is:

Cash held in respect of the Kupe project of \$16.0 million (2011: \$19.5 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\$3.8million (NZ dollar equivalent \$4.7million) 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Net trade receivables				
Trade receivables	14,714	5,632	1,702	121
Interest receivable	1,090	187	1,090	187
Share of oil and gas interests' receivables	439	739	-	-
	16,243	6,558	2,792	308
Advances to related parties	-	-	13,293	121,238
Net receivables from Pike River Coal Limited (In Receivership) (PRCL)				
Short-term loan to PRCL - principal	2,427	12,000	-	-
Interest receivable on short-term loan to PRCL	-	1,298	-	-
Interest receivable on convertible bond issued to PRCL	57	3,062	-	-
	2,484	16,360	-	-
Other				
Prepayments	995	714	223	58
Stock Over Lift Receivable	290	-	-	-
Other	84	101	38	69
Total receivables and prepayments	20,096	23,733	16,346	121,673

Trade receivables denominated in currencies other than the presentation currency comprise \$7.5 million denominated in US dollars; NZ dollar equivalent \$9.4 million (2011: \$2.3 million denominated in US dollars; NZ dollar equivalent \$2.7 million).

Pike River Coal Limited (In Receivership) (PRCL) – Short-term funding arrangement

On 13 December 2010 PRCL was placed into receivership at the request of its directors.

At the date of the receivership PRCL had drawn \$25.0 million under a short-term loan funding arrangement (\$13.0 million on an unsecured basis and \$12.0 million on a secured basis). The Group advanced a further \$6.8 million under the short-term secured funding arrangement and received \$2.7 million in part repayment of outstanding unsecured debt. At 30 June 2012 the Group's best estimate of the recoverable value of funds advanced under the short-term funding arrangement was \$2.4 million.

During the year the Group recognised an impairment loss on the short-term funding arrangement of \$16.5 million. The impairment loss recognised on the outstanding principal and interest receivable from PRCL has been included in 'net finance income/(costs)' in the income statement. The position was reached after discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received \$5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds (\$2.5 million), the interest on convertible bonds (\$0.1 million) and short-term funding arrangement (\$2.4 million) - refer to note 32.

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining short-term funding arrangement.

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

13 Inventories

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Oil stock, at cost	627	489	-	-
Emission units, at cost	64	1	-	-
Share of oil and gas interests' inventory, at cost	649	379	-	-
Total inventories	1,340	869	-	-

14 Convertible Bond

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Current				
Convertible Bond - recoverable fair value	2,499	35,103	-	-
Total convertible bond	2,499	35,103	-	-

Pike River Coal Limited (In Receivership) (PRCL) – Convertible bond facility

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors.

At the date of the receivership PRCL had subscribed to 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.

The Group received US\$26.9 million (\$34.2 million) of principal and US\$3.7 million (\$4.9 million) of interest on the US\$28.9 million convertible bond facility. At 30 June 2012 the Group's best estimate of the fair value of the convertible bond facility was US\$2.1 million (\$2.5 million).

The fair value position was reached after discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received \$5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds (\$2.5 million), the interest on convertible bonds (\$0.1 million) and short-term funding arrangement (\$2.4 million) - refer to note 32.

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining convertible bonds.

The Group also has a short-term funding arrangement with PRCL (refer note 12).

15 Investments in subsidiaries

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

Name of entity	Country of incorporation	Equity holding	
		2012 %	2011 %
ANZ Resources Pty Limited	Australia	100	100
Australia and New Zealand Petroleum Limited	New Zealand	100	100
Kupe Royalties Limited	New Zealand	100	100
National Petroleum Limited	New Zealand	100	100
Nephrite Enterprises Limited	New Zealand	100	100
NZOG 38259 Limited	New Zealand	100	100
NZOG 38483 Limited	New Zealand	100	100
NZOG 38494 Limited	New Zealand	100	100
NZOG Asia Pty Limited (Incorporated 14 July 2011)	Australia	100	-
NZOG Bohorok Pty Limited (Incorporated 30 May 2012)	Australia	100	-
NZOG Canterbury Limited	New Zealand	100	100
NZOG Development Limited	New Zealand	100	100
NZOG Devon Limited	New Zealand	100	100
NZOG Egmont Limited	New Zealand	100	100
NZOG Energy Limited	New Zealand	100	100
NZOG Hammamet Pty Limited (Incorporated 6 September 2011)	Australia	100	-
NZOG Offshore Limited	New Zealand	100	100
NZOG Pacific Holdings Pty Limited (Incorporated 14 July 2011)	Australia	100	-
NZOG Pacific Limited	New Zealand	100	100
NZOG Services Limited	New Zealand	100	100
NZOG Taranaki Limited	New Zealand	100	100
NZOG Tunisia Pty Limited	Australia	100	100
Oil Holdings Limited	New Zealand	100	100
Pacific Oil & Gas (North Sumatera) Limited (i)	Bermuda	90	-
Petroleum Equities Limited	New Zealand	100	100
Petroleum Resources Limited	New Zealand	100	100
Resource Equities Limited	New Zealand	100	100
Stewart Petroleum Company Limited	New Zealand	100	100
Trustee of New Zealand Oil & Gas Employee Benefit Trust	New Zealand	-	-

All subsidiary companies have a balance date of 30 June with the exception of Pacific Oil & Gas (North Sumatera) Limited which has a 31 December balance date. All subsidiaries are predominantly involved in the petroleum exploration industry.

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

United States dollar functional currency companies:

- Stewart Petroleum Company Limited
- NZOG Tunisia Pty Limited
- NZOG Asia Pty Limited
- NZOG Hammamet Pty Limited
- NZOG Bohorok Pty Ltd
- NZOG Pacific Holdings Pty Limited
- Pacific Oil & Gas (North Sumatera) Limited

Australian dollar functional currency company:

- ANZ Resources Pty Limited

(i) In December 2011 the Group acquired an interest in the Kisaran production sharing contract in Indonesia with the purchase of a 90% shareholding in Pacific Oil & Gas (North Sumatera) Limited.

16 Oil and gas interests

The Group held the following oil and gas production, exploration, evaluation and appraisal interests at the end of the year:

Name	Country	Type	Interests held by the Group	
			2012	2011
PML 38146 - Kupe	New Zealand	Mining Licence	15.0%	15.0%
PMP 38158 - Tui	New Zealand	Mining Permit	12.5%	12.5%
PEP 38259 - Barque (v)	New Zealand	Exploration Permit	40.0%	40.0%
PEP 51311 - Kakapo (ii)	New Zealand	Exploration Permit	100.0%	100.0%
PEP 51321 - Kahurangi	New Zealand	Exploration Permit	-%	18.9%
PEP 38491 - Albacore (i)	New Zealand	Exploration Permit	-%	100.0%
PEP 51988 - Mangaa (i)	New Zealand	Exploration Permit	-%	100.0%
PEP 51558 - Kanuka	New Zealand	Exploration Permit	50.0%	20.0%
PEP 52181 - Kaheru (iii)	New Zealand	Exploration Permit	-%	-%
Diodore	Tunisia	Prospecting Permit	100.0%	100.0%
Bohorok PSC (iv)	Indonesia	Production Sharing Contract	-%	-%
Kisaran PSC	Indonesia	Production Sharing Contract	22.5%	-%
Cosmos	Tunisia	Concession	40.0%	-%

(i) PEP 38491 (Albacore) and PEP 51988 (Mangaa) were relinquished to the Crown on 20 January 2012.

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

(iii) As at 30 June the Group has a 60% interest in a New Zealand exploration permit PEP 52181 (Kaheru permit) that was conditional on a drilling commitment being made by mid-September 2010 to drill a well in Kaheru in 2013-14. At 30 June 2012 contract conditions remained outstanding.

(iv) During the year the NZOG Group and its partners were the winning bidders for a Production Sharing Contract (PSC) for the Bohorok permit in North Sumatera. On 25 July 2012 after balance date NZOG and its partners signed the Bohorok PSC with NZOG taking a 45% share. As at 30 June 2012 the Group had incurred US\$750,000 in relation to a performance bond that was a condition of the Bohorok PSC. (Refer note 19).

(v) On 10 August 2012, after the balance date, NZOG announced that the consortium with interests in PEP 38259 (Barque) agreed to relinquish the permit to the Crown. The Group has fully impaired the exploration and evaluation asset in PEP 38259 (Barque) at balance date (Refer to note 17).

16 Oil and gas interests (continued)

	Group	
	2012 \$'000	2011 \$'000
Share of oil and gas interests' assets and liabilities		
Current assets		
Cash and cash equivalents	12,568	3,637
Trade receivables *	439	739
Inventory	649	379
Non current assets		
Petroleum interests **	321,449	293,547
Total assets	<u>335,105</u>	<u>298,302</u>
Current liabilities		
Payables	5,649	5,511
Total liabilities	<u>5,649</u>	<u>5,511</u>
Net assets	<u>329,456</u>	<u>292,791</u>
Share of oil and gas interests' revenue, expenses and results		
Revenues *	72	94
Expenses	<u>(17,666)</u>	<u>(21,926)</u>
Profit before income tax	<u>(17,594)</u>	<u>(21,832)</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.

17 Exploration and evaluation assets

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Opening balance	7,322	6,641	-	4,430
Expenditure capitalised	10,047	4,334	-	90
Revaluation of USD exploration and evaluation assets	(87)	(219)	-	-
Expenditure written off *	(2,389)	(3,434)	-	-
Transfer of exploration interest to wholly owned subsidiaries	-	-	-	(4,520)
Closing balance	<u>14,893</u>	<u>7,322</u>	<u>-</u>	<u>-</u>

* The expenditure written off during the year relates to the following permits: PEP 38491 (Albacore), PEP 51988 (Mangaa) and PEP 38259 (Barque). Refer to note 16.

18 Oil and gas assets

	Group		Parent	
	2012	Restated*	2012	2011
	\$'000	\$'000	\$'000	\$'000
Opening balance	238,841	253,917	-	-
Prior period adjustment	-	13,703	-	-
Restated opening balance	238,841	267,620	-	-
Expenditure capitalised	1,284	1,622	-	-
Amortisation for the year	(27,958)	(23,439)	-	-
Revaluation of USD production assets	773	(4,807)	-	-
Abandonment provision	5,597	(2,155)	-	-
Closing balance	218,537	238,841	-	-

Includes capitalised borrowing costs of \$10.5 million at 30 June 2012 (2011: \$10.5 million).

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

19 Other financial assets

	Group		Parent	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Pan Pacific Petroleum NL - Shares:				
Investment assets (fair value through other comprehensive income)	15,750	15,662	-	-
	15,750	15,662	-	-
Other				
Investment in subsidiaries (Refer to note 15)	-	-	56,498	50,171
Performance Bonds	2,259	-	1,256	-
Refundable security deposits	43	43	-	-
	2,302	43	57,754	50,171
Total other financial assets	18,052	15,705	57,754	50,171

(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 \$15.8 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). 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 \$23.1 million (US\$17.8 million) and is held by Stewart Petroleum Co Limited.

19 Other financial assets (continued)

Shares held in Pike River Coal Limited (In Receivership)

The Group's holding in PRCL comprises 119.0 million ordinary shares. On the 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. From the date of receivership the investment was fully impaired with the impairment loss included in 'net finance income/(expense)' in the income statement.

In the year ended 30 June 2011 the investment in PRCL was no longer recognised as an associate investment and reclassified as a financial asset at fair value through profit or loss with a nil value.

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

The coal contract option issued by PRCL expired on 31 March 2012. The fair value of the coal option contract in 2011 was nil.

(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.

(c) Performance Bonds

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreement and production sharing contracts.

20 Payables

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Trade payables	1,691	861	393	726
Employee entitlements	257	284	257	284
Accrued expenses	890	1,647	471	598
Interest payable	141	413	-	-
Royalties payable	7,774	6,211	-	-
Share of oil and gas interests' payables	5,649	5,511	-	-
Other payables	557	392	84	83
Total payables	16,959	15,319	1,205	1,691

Payables denominated in currencies other than the presentation currency comprise \$0.8 million of payables denominated in US dollars; NZ dollar equivalent \$1.0 million. (2011: US dollars \$0.7 million; NZ dollar equivalent \$0.9 million)

21 Borrowings

	Group		Parent	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Secured - Current				
Bank loans	18,040	14,644	-	-
Secured - Non-current				
Bank loans	28,760	48,680	-	-
Total borrowings	46,800	63,324	-	-

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 2012 the Letter of Credit facility was US\$3.8 million (30 June 2011: US\$4.6 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 2012 the Group has a project facility in respect of Kupe of \$46.8 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.

22 Restoration and rehabilitation provision

	Group		Parent	
	2012	Restated*	2012	2011
	\$'000	2011 \$'000	\$'000	\$'000
Restoration and rehabilitation provision	32,392	25,645	-	-
Total restoration and rehabilitation provisions	32,392	25,645	-	-

Provisions for restoration and rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefit will be required to settle the obligation. The estimated future obligations include the costs of removing facilities abandoning wells and restoring the affected area. Due to the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred.

The provision is determined by discounting expected future expenditure at an appropriate risk free rate relevant to the currency of the expected expenditure. Changes in estimates of the timing and amount of expected future expenditure will impact on the provision in future.

In the current year the following risk free rates have been used to determine the provision based on the respective currency of expected expenditure:

NZ Dollar	3.40%
US Dollar	1.67%
Australian Dollar	3.04%

Movements in provisions

	2012	Restated*
	\$'000	2011 \$'000
Group		
Carrying amount at start of year	25,645	11,998
Prior period adjustment	-	17,223
Restated opening balance	25,645	29,221
Additional/(reduction) in provision recognised	5,597	(2,155)
Unwinding of discount	746	810
Revaluation of USD provisions	404	(2,231)
Carrying amount at end of year	32,392	25,645

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

23 Deferred tax assets and liabilities

	Group		Parent	
	2012	Restated*	2012	2011
	\$'000	2011 \$'000	\$'000	\$'000
The balance comprises temporary differences attributable to:				
<i>Deferred tax assets</i>				
Non-deductible provisions	8,989	7,181	-	-
Tax losses	-	1,675	-	1,676
Other items	72	602	72	80
Total deferred tax assets	9,061	9,458	72	1,756
<i>Deferred tax liabilities</i>				
Exploration assets	(2,067)	(2,157)	-	-
Oil and gas assets	(36,118)	(31,505)	-	-
Capitalised borrowing costs	(2,649)	(2,945)	-	-
Sub-total other	(40,834)	(36,607)	-	-
Net deferred tax assets (liabilities)	(31,773)	(27,149)	72	1,756
Movements:				
Net deferred tax asset/(liability) at 1 July	(27,149)	(23,137)	1,756	(1,141)
Prior period adjustment *	-	1,055	-	-
Restated opening balance	(27,149)	(22,082)	1,756	(1,141)
Charged/(credited) to the income statement (Refer to note 9)	(4,726)	(4,599)	(1,684)	2,897
Foreign exchange differences	102	(468)	-	-
Closing balance at 30 June	(31,773)	(27,149)	72	1,756

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)(i)

24 Contributed equity of the Group and Parent

	2012 Number of Shares 000s	2011 Number of Shares 000s	2012 \$'000	2011 \$'000
(a) Share capital				
Ordinary shares				
Fully paid shares	392,788	392,114	358,499	358,178
Partly paid shares	9,520	5,470	85	55
	402,308	397,584	358,584	358,233

(b) Movements in ordinary share capital:

	2012 Number of Shares 000s	2011 Number of Shares 000s	2012 \$'000	2011 \$'000
Opening	397,584	393,508	358,233	353,741
Issues of ordinary shares during the year				
Shares issued	3,561	5,236	2,395	6,622
Buy back of issued shares	(2,887)	(2,585)	(2,075)	(2,517)
Partly paid shares issued	4,050	1,425	31	387
Closing balance of ordinary shares issued	402,308	397,584	358,584	358,233

(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

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

Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 30.

25 Reserves

	Group		Parent	
	2012	Restated*	2012	2011
	\$'000	\$'000	\$'000	\$'000
(a) Reserves				
Revaluation reserve	(4,925)	(4,267)	-	-
Share based payments reserve	345	699	345	699
Foreign currency translation reserve	(12,663)	(13,852)	-	-
Share revaluation reserve	-	-	6,465	6,465
Total reserves	(17,243)	(17,420)	6,810	7,164
Movements:				
<i>Revaluation reserve</i>				
Balance 1 July	(4,267)	-	-	-
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	(658)	(150)	-	-
Balance 30 June	(4,925)	(4,267)	-	-
<i>Available for sale financial asset reserve</i>				
Balance 1 July	-	(4,117)	-	-
Transferred available for sale reserve to revaluation reserve on 1 July 2010	-	4,117	-	-
Balance 30 June	-	-	-	-
<i>Share based payments reserve</i>				
Balance 1 July	699	366	699	366
Share based payment expense for the year	288	488	288	488
Transfer of expired share based payments during the year	(642)	(155)	(642)	(155)
Balance 30 June	345	699	345	699
<i>Foreign currency translation reserve</i>				
Balance 1 July	(13,852)	(4,946)	-	-
Prior period adjustment	-	(78)	-	-
Restated opening balance	(13,852)	(5,024)	-	-
Foreign currency translation differences for the year	1,189	(8,828)	-	-
Balance 30 June	(12,663)	(13,852)	-	-
<i>Share revaluation reserve</i>				
Balance 1 July	-	-	6,465	6,465
Balance 30 June	-	-	6,465	6,465

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

(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.

25 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 outlined in note 15. 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.

26 Earnings per share

	2012 Cents	Group Restated* 2011 Cents
(a) Basic earnings per share		
Basic earnings per share	5.0	(19.3)
(b) Diluted earnings per share		
Diluted earnings per share	5.0	(19.3)
(c) Reconciliations of earnings used in calculating earnings per share		
	2012 \$'000	Group Restated* 2011 \$'000
Profit/(loss) for the year	19,887	(76,491)
(d) Weighted average number of shares used as the denominator		
	2012 Number 000s	Group 2011 Number 000s
<i>Weighted average number of ordinary shares used in calculating basic earnings per share</i>	400,263	397,451

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

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

Notes	Group		Parent	
	2012 \$'000	Restated* 2011 \$'000	2012 \$'000	2011 \$'000
Profit/(loss) for the year	19,887	(76,491)	(14,708)	(92,684)
Depreciation and amortisation	28,105	23,667	129	228
Deferred tax	4,726	4,599	1,684	(2,897)
Net fair value loss on convertible bonds	-	6,399	-	-
Fair value adjustment of financial asset	-	742	-	-
Impairment of loan to Pike River Coal Limited (In Receivership) - principal	13,765	13,000	-	-
Impairment of loan to Pike River Coal Limited (In Receivership) - interest	2,735	1,550	-	-
Impairment of investment in Pike River Coal Limited (In Receivership)	-	77,088	-	-
Loss/(gain) on investment held in subsidiaries	-	-	13,691	-
Exploration and evaluation costs expensed	2,389	3,434	-	-
Impairment of loans and investment in subsidiaries	-	-	-	96,618
Share based payment expense	288	488	288	488
Net foreign exchange differences	(4,526)	11,005	(3,073)	8,623
Non-cash dividend	-	-	(4,103)	(17,926)
Other	689	(260)	-	-
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	(5,338)	9,271	(3,476)	43
Increase/(decrease) in trade creditors	442	(5,890)	(2,505)	611
Net cash inflow from operating activities	63,162	68,602	(12,073)	(6,896)

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

28 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, performance bonds, 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 20.

(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.

(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, short-term funding arrangement and a convertible bond issued to Pike River Coal Limited (In Receivership) (PRCL).

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 funding arrangement to PRCL. This exposure is disclosed in notes 12 and 14.

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

28 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 non-derivative financial liabilities and for derivatives that are settled on a gross cash flow basis:

GROUP	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
30 June 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Secured borrowings - principal and interest *	12,430	7,583	18,868	10,947	-	49,828
Payables	16,959	-	-	-	-	16,959
Total non-derivative liabilities	29,389	7,583	18,868	10,947	-	66,787
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Secured borrowings - Principal and interest	3,817	12,967	19,365	32,947	-	69,096
Payables	15,319	-	-	-	-	15,319
Total non-derivative liabilities	19,136	12,967	19,365	32,947	-	84,415

At 30 June 2012 the Group had no derivatives to settle (2011: nil).

* The Group has a project finance facility which is secured over the Group's Kupe assets. The facility was drawn to \$46.8 million at 30 June 2012 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 quarterly. 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.

PARENT	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
30 June 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	1,205	-	-	-	-	1,205
Total non-derivative liabilities	1,205	-	-	-	-	1,205
30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	1,691	-	-	-	-	1,691
Total non-derivative liabilities	1,691	-	-	-	-	1,691

28 Financial risk management (continued)

(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.

(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 28(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 \$3.3 million and decrease the foreign currency translation reserve in equity by \$0.5 million (2011: \$4.8 million decrease on profit before tax and \$1.1 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 \$2.1 million (2011: \$1.5 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 (2011: \$0.8 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.

28 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 2012				
Assets				
Financial assets at fair value through profit or loss				
Convertible Bond - recoverable fair value	-	-	2,499	2,499
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	15,750	-	-	15,750
Total assets measured at fair value	15,750	-	2,499	18,249
	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	15,662	-	-	15,662
Total assets measured at fair value	15,662	-	35,103	50,765

The fair value of financial instruments traded in active markets is based on quoted market prices at balance 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 fair value through comprehensive income.

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.

28 Financial risk management (continued)

Specific valuation techniques used to value financial instruments include:

In 2012 the fair value of the convertible bond with Pike River Coal Limited (In Receivership) (PRCL), was based on discussions with the Receivers and consideration of a range of potential outcomes from the PRCL Receivership. The Group's consideration of a best estimate of the likely recoverable value was determined after applying a range of probabilities to the estimated future cash flows from the initial purchase price from the sale of the mine, deferred payment from the sale of the mine and other forecast cash flows from the Receivers.

Post balance date receipts

On 19 July 2012, the Group received \$5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds (\$2.5 million), the interest on convertible bonds (\$0.1 million) and short-term funding arrangement (\$2.4 million) - refer to note 32.

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 2012

	Coal Option Contract	Convertible Bond – equity option	Convertible Bond – recoverable fair value	Total
	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	35,103	35,103
Purchases/(Repayment) of financial instrument	-	-	(35,006)	(35,006)
Gains/(losses) recognised in the Income Statement	-	-	1,680	1,680
Interest capitalised during the year	-	-	722	722
Closing balance	-	-	2,499	2,499
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	-	-	1,680	1,680

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
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)

28 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 2012				
Assets				
Cash and cash equivalents	-	-	209,221	209,221
Receivables	-	-	19,101	19,101
Other financial assets	-	15,750	2,302	18,052
	-	15,750	230,624	246,374
Liabilities				
Payables			16,959	16,959
Borrowings			46,800	46,800
			63,759	63,759
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
	35,103	15,662	172,422	223,187
Liabilities				
Payables			15,319	15,319
Borrowings			63,324	63,324
			78,643	78,643

All Parent financial instruments are held at amortised cost.

29 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; P G Foley; A T N Knight; S J Rawson (resigned 27 January 2012); D J Salisbury (resigned 23 December 2011); D R Scoffham; P W Griffiths; M Tume (appointed 28 February 2012); and R J Finlay (appointed 28 February 2012).

The Directors of the above companies received no remuneration or other benefits from the subsidiary companies directly during the year, as their remuneration from NZOG Ltd covers all payments received for services.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2012 and 30 June 2011 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
2012						
Management	1,111	-	-	-	112	1,223
Directors	1,260	-	-	-	73	1,333
	2,371	-	-	-	185	2,556
2011						
Management	1,851	-	-	-	185	2,036
Directors	1,185	-	-	-	120	1,305
	3,036	-	-	-	305	3,341

(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, is 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 30.

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 \$19,000 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.

Mr A T N Knight provided consulting services to the Group (prior to being appointed Chief Executive Officer) during the reporting period to the value of \$23,500 in relation to executive management. 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 notes 14, 15, 16, 17 and 19 as subsidiaries and oil and gas interests.

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.

29 Related party transactions (continued)

During the year ended 30 June 2012 the Group had the following transactions with Pike River Coal Limited (In Receivership) (PRCL):

Convertible Bond

The Group received US\$26.9 million (\$34.2 million) of principal and US\$3.7 million (\$4.9 million) of interest on the US\$28.9 million convertible bond facility. At 30 June 2012 the Group's best estimate of the fair value of the convertible bond facility was US\$2.1 million (\$2.5 million) – refer to note 14.

Short-term Funding Arrangement

The Group advanced a further \$6.8 million under the short-term secured funding arrangement and received \$2.7 million in part repayment of outstanding unsecured debt. At 30 June 2012 the Group's best estimate of funds advanced under the short-term funding arrangement was \$2.4 million – refer to note 12.

Post balance date receipts

On 19 July 2012, the Group received \$5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds (\$2.5 million), the interest on convertible bonds (\$0.1 million) and short-term funding arrangement (\$2.4 million) - refer to note 32.

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

The coal contract option issued by PRCL expired on 31 March 2012. The fair value of the coal option contract in 2011 was nil.

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

30 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.

30 Share-based payments (continued)

Issued within Year Ended	Grant Date (Last in Year)	Final Date (Last in Year)	Average Exercise Price	Balance at start of Year 000s	Issued during the Year 000s	Sold during the Year 000s	Forfeited during the Year 000s	Balance at end of the Year 000s	Fully vested at end of Year 000s
30/06/2007	Apr-07	Apr-12	\$ 1.29	505.0	-	-	(505.0)	-	-
30/06/2008	Feb-08	Nov-12	\$ 1.57	1,460.0	-	-	(1,260.0)	200.0	200.0
30/06/2009	Mar-09	Oct-13	\$ 1.26	350.0	-	-	(100.0)	250.0	250.0
30/06/2010	Jan-10	Nov-14	\$ 1.64	1,850.0	-	-	-	1,850.0	1,850.0
30/06/2011	Jan-11	Nov-15	\$ 1.65	1,305.0	-	-	(100.0)	1,205.0	230.0
30/06/2012	May-12	Apr-16	\$ 0.96	-	4,050.0	-	(150.0)	3,900.0	-
				5,470.0	4,050.0	-	(2,115.0)	7,405.0	2,530.0
Weighted average exercise price				\$ 1.49	\$ 0.96	n/a	n/a	\$ 1.27	\$ 1.63

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 2012 was 7 cents to 10 cents per share (30 June 2011 was 7 cents to 25 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2012, 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: \$0.70 - \$0.76
- (d) expected price volatility of the company's shares: 40%
- (e) expected gross dividend per share: 9.1% - 9.9%
- (f) risk free interest rate on the issue date: 2.54% - 2.76%

The expected price volatility is based on the historic volatility.

31 Commitments and contingent assets and 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	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within one year	358	339	358	339
Later than one year and not later than five years	1,357	1,355	1,357	1,355
Later than five years	-	308	-	308
	1,715	2,002	1,715	2,002

During the year ended 30 June 2012 \$340,000 was recognised as an expense in the income statement in respect of operating leases (2011: \$384,000).

31 Commitments and contingent assets and liabilities (continued)

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) Contingent assets

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 discussions with the parties that have an obligation of paying the overriding royalty to agree the basis of the calculation. At balance date a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

(d) Contingent liabilities

PRCL receivership

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.

Petroleum Sales

The Group sells all LPG produced from the Kupe field to a single customer under a long-term sales agreement. In July 2011 the customer notified NZOG that the total sales revenue figures for both the 2010 and 2011 financial years would be adjusted for a specific transaction. NZOG did not believe the adjustment conformed with the terms of the agreement and exercised its right to audit the figures, following which two invoices amounting to \$1.7 million were raised in respect of the particular periods and recognised in revenue. As at balance date, although paid in full, the customer is disputing the invoices.

Other contingent liabilities

As at 30 June 2012 the Company had no other contingent liabilities (2011:\$Nil).

32 Events subsequent to balance date

PEP 38259 (Barque)

On 10 August 2012, after the balance date, NZOG announced that the consortium with interests in PEP 38259 (Barque) agreed to relinquish the permit to the Crown. The Group has fully impaired the exploration and evaluation asset in PEP 38259 (Barque) at balance date (Refer to note 17).

Pike River Coal Limited (In Receivership) (PRCL)

On 17 July 2012 the Receiver confirmed the completion of the sale of mine assets to Solid Energy and receipt of the balance of the base purchase price of \$5.0 million. The sale agreement between the Receivers and Solid Energy provides for additional payments of up to \$25.0 million by Solid Energy once mining recommences and certain production thresholds are reached. The Group has not recognised any amount in relation to these potential additional payments, which would become payable to the Group under the short-term funding arrangement (Refer to note 12).

On 19 July 2012, the Group received \$5.0 million from the Receivers of PRCL. The money was allocated to the carrying amount of the convertible bonds (\$2.5 million), the interest on convertible bonds (\$0.1 million) and short-term funding arrangement (\$2.4 million) (Refer to note 12, 14, 28(g) and 29).

The Group considers there is still considerable uncertainty as to the timing and quantum of any further return to NZOG from the Receivers of PRCL and has attributed no value to the remaining convertible bonds and short-term funding arrangements.



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 2 to 49. The financial statements comprise the statements of financial position as at 30 June 2012, 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 auditor 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 2 to 49:

- 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 2012 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.

A handwritten signature in blue ink, appearing to read 'KPMG', with a horizontal line underneath it.

22 August 2012
Wellington