NEW ZEALAND OIL & GAS LIMITED

Annual Report
2016

NEW ZEALAND
OIL & GAS

New Zealand Oil & Gas Limited Annual Report

2	Chairman's Review
4	Production and Reserves
14	Consolidated Financial Statements
15	Consolidated Statement of Cash Flows
17	Consolidated Statement of Comprehensive Income
18	Consolidated Statement of Financial Position
19	Consolidated Statement of Changes in Equity
21	Notes to the Consolidated Financial Statements
40	Independent Auditor Report
41	Corporate Governance Statement
50	Shareholder Information
56	Corporate Directory

Signed on behalf of the Board of New Zealand Oil & Gas Limited on 7 September 2016

Rodger J Finlay
Chairman

Mark Tume
Director

Chairman's Review

It's my pleasure to report on a year that has seen the company make considerable progress as it moved through a sharp downturn in oil prices and enters the next market cycle with costs reduced, significantly positive cashflows and a portfolio that is shaped to the opportunities ahead.

I am delighted that ongoing cashflows have enabled the Board to resume paying a dividend. The fully imputed dividend of 4 cents per share complements other capital management initiatives. Our tender in September was created to bring liquidity to our program of buying back our shares. In 2015 a vote to authorise us to buy back up to 64 million shares was supported by more than 73 per cent of shareholders who voted.

Distributions to shareholders have been possible because we have focused this year on minimising cash burn. Corporate costs have been reduced by around a third. Staff numbers have also been reduced to reflect the company's focus and the Board itself has led by example. The Board reduced from seven members to five and, additionally, Director's fees were reduced.

Another example of our focus on cost-effectiveness was that Tui costs were reduced by $4.2 million during the year. These reduced costs, as well as improved production profiles and higher forecast oil prices, led to the reversal of the half year impairment increasing the asset value of Tui by $8 million from December. At Kupe, joint venture costs were $9.1 million below budget.

We have a balance sheet capable of supporting acquisition. However we will be rigorous with our analysis and we will only consider acquisition in territories we understand and opportunities that present an obvious path to value.

The focus on costs successfully executed at New Zealand Oil & Gas must now be taken up by Cue who announced in June a shift in focus of activities, a commitment to reduce costs and a drive for more sustainable cashflows. We share with all of Cue Energy's shareholders an interest in realising more value and in seeing cash returns from our investment. I expect Cue to look substantially different in a year from now.

Kupe has outstanding growth opportunities. Initiatives in the producing Central Field Area such as compression can help to optimise gas recovery and additional perforations in existing wells could enhance well deliverability. Structures within drilling reach of the Kupe platform may warrant targeting to connect up discovered gas and test undiscovered potential. We look forward to working with the joint venture to firm up these opportunities.

The Kupe asset is performing strongly and the highlight of the past year was a large upgrade in Kupe reserves, which will delay the need for capital investment to develop the field. In simpler terms, there is much more value in Kupe than we previously believed and we need to spend less to access it.

Kupe presents special attributes because it is mainly a gas field. We see potential for gas demand to grow as regulators push carbon price increases to reflect the reality of a transition to renewables. Renewable energy sources will require support from a flexible, affordable and abundant energy source. Gas is an ideal transition fuel.

The Board has also decided to trade in oil options and carbon emission credits. Oil trading markets and demand for carbon emissions credits provide opportunities to leverage the business's understanding of those markets and provide small opportunities to further improve revenues. Our exposure to trading will be limited.

As promised, exploration costs have been reduced but we have identified large - even world scale - leads in the frontier basins off the South Island of New Zealand. We continue to seek partners who have the scale and capability fit for our desired exposure to the potential in these basins that our scientists are highlighting.

Over the year our health and safety activity was focused on driving improvements in identifying and managing hazards in our operated and non-operated activities. Non-operated joint ventures make up the lion's share of our HSE exposure and both management and Board are focused on a proactive approach to health and safety - and, in particular, on process safety with our JV partners. Our activity includes reviews of any near misses, incidents and accidents. In addition, our staff participated actively in reviews and audits on joint facilities.

Alongside heath and safety, we have increased attention to sustainability. A dedicated Sustainability Report is being published alongside this Annual Report.
Our corporate social responsibility and community relationships are making us a valued partner within our industry and for the communities we operate in. We take pride in the contribution we make. The company has received warm, positive feedback for the way we go about joint ventures.

Our socially and environmentally responsible approach is helping to build trust and understanding in the wider community.

Community panels are functioning well and provide us with valuable feedback and understanding of others' perspectives. They've helped guide our social investment, such as support for Warm Home projects that insulate low income houses in Southland and Taranaki; support for the touring Dinosaur Footprints exhibition that was visited by more than five per cent of New Zealanders as it travelled throughout regional areas; and support for the marine environment through original research into New Zealand's great white shark population.

With a view to reducing costs, the Board made a decision to exit our dual listing on the Australian stock exchange, given that the NZX has served us well for thirty-five years.

In closing I would like to take the opportunity to specifically thank Peter Griffiths and Andrew Knight for their years of leadership of the company. Peter stepped down as Chairman in February and Andrew left in August after nearly five years as chief executive. Both served the company with distinction through some very trying times, we were lucky to have them and I wish them the very best.

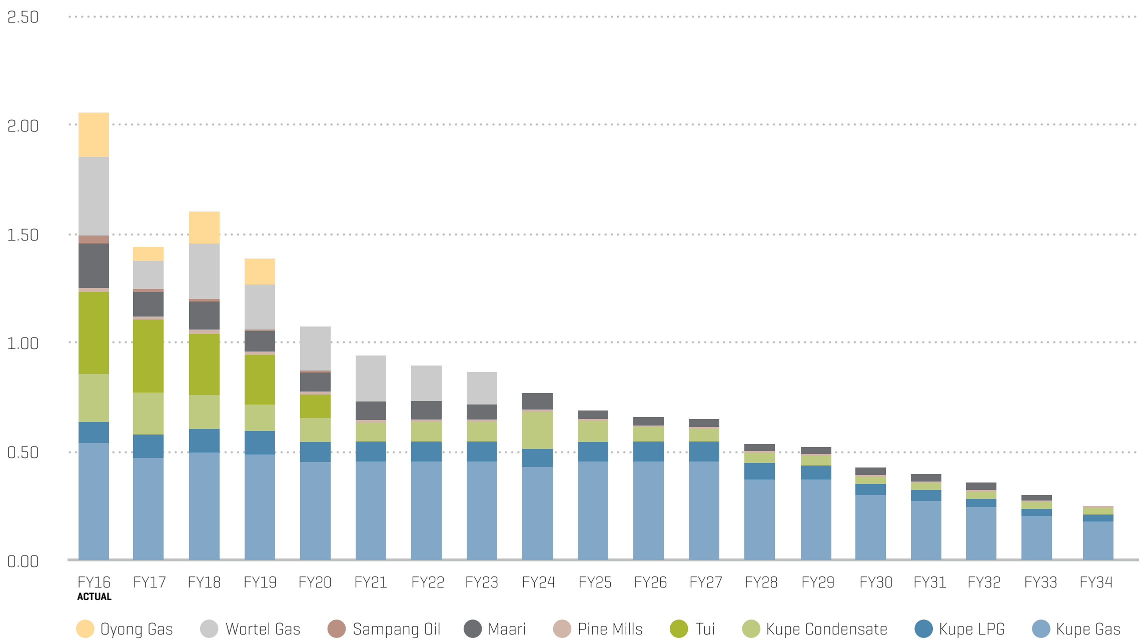
Rodger Finlay

Chairman

New Zealand Oil & Gas

Production

Actual and Forecast 2P Production
millions of barrels of oil equivalent



Taranaki Basin Production

FY16 Production

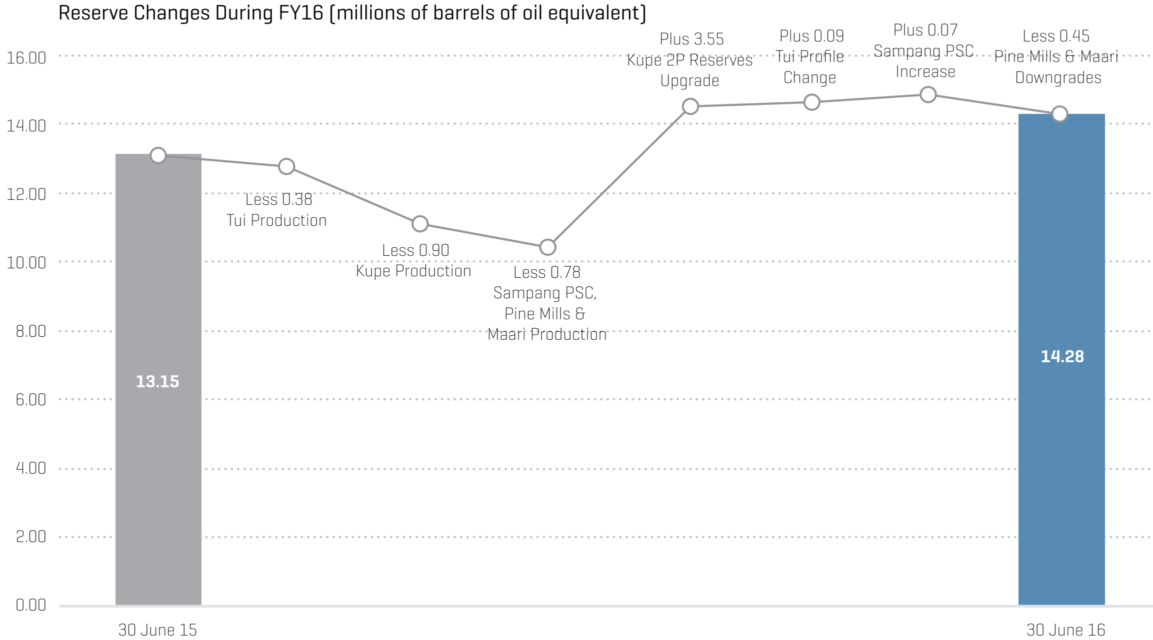
New Zealand Oil & Gas share (net)	
Tui (oil-barrels)	377,575
Kupe (oil-barrels)	206,769
Kupe (Gas-terajoules)	3,595
Kupe (LPG – tonnes)	13,584
Maari (oil-barrels)	225,777
Sampang PSC (oil-barrels)	51,675
Sampang PSC (Oyong and Wortel) (gas-terajoules)	3,057
Pine Mills (oil-barrels)	17,505

Some rounding. Includes 100 per cent of Cue's performance and interests.

Reserves

New Zealand Oil & Gas Reserves

Reserve Changes During FY16 (millions of barrels of oil equivalent)



Proven and Probable (2P) oil and gas reserves at 30 June 2016:

Geographic area	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (Kilotonnes)	Million Barrels of Oil Equivalent
New Zealand				
Kupe	1.49	44.09	183.97	10.20
Tui	0.85			0.85
Maari	1.30			1.30
Indonesia				
Sampang PSC	0.06	8.54		1.46
USA				
Pine Mills	0.48			0.48
Total	**4.18**	**52.63**	**183.97**	**14.28**

Some rounding. Includes 100 per cent of Cue's reserves. See Statement, page 10.

Million barrels of oil equivalent have been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion factors consistent with the Society of Petroleum Engineers (SPE) guidelines. Conversion factors used were: 163.40 barrels of oil equivalent per terajoule of natural gas and 8.15 barrels of oil equivalent per tonne of LPG.

Kupe Reserves Upgrade

Throughout the year significant work has been undertaken across the Kupe joint venture to review the potential for further development of the Kupe field, through existing infrastructure and the potential addition of new infrastructure.

As a result of this work, the joint venture has announced material upgrades of Kupe 1P, 2P and 3P developed and undeveloped reserves. The upgrades are based on full field production to date and include various forms of flowing and shut-in analyses both in geological and engineering streams. A comprehensive uncertainty analysis has been performed by the field operator and has resulted in a suite of new deterministic models, on which the reserves profiles are based.

Increases in developed reserves are attributable to the volumes producible through existing infrastructure. Increases in undeveloped reserves are based on an updated second phase of capital work at Kupe. This involves the installation of onshore compression and a future potential additional well (or wells) offshore. These works are assessed to be completed within the next five years based on current understanding but subject to ongoing field and production analysis.

Work on the compression phase of the project is continuing with further subsurface analysis progressing. Assessment of the optimum location, type and number of additional production wells (to follow from the compression project) is ongoing.

This new development phase represents a material change from the previous capital program, both because scope is reduced and because of the relative delay in timing. This phase also offers upgraded estimated recovery.

Tables setting out the year-on-year changes in each of the three total reserves classes (net to New Zealand Oil & Gas) are included to the right. The 2P developed reserves represent a marginal increase over the New Zealand Oil & Gas announcement on 21 April 2016.

Kupe 1P Total Reserves Reconciliation

	30 June 2015 Position	30 June 2015 Position less subsequent Production	Reserve Position as at 30 June 2016	Year-on-Year % Change
Gas (petajoules)	20.40	16.79	29.98	78.5%
LPG (kilotonnes)	87.28	73.77	125.59	70.2%
Oil (million barrels)	0.79	0.58	1.23	111.3%
Total Equivalent (million barrels of oil equivalent)	4.83	3.93	7.15	82.1%

Kupe 2P Total Reserves Reconciliation

	30 June 2015 Position	30 June 2015 Position less subsequent Production	Reserve Position as at 30 June 2016	Year-on-Year % Change
Gas (petajoules)	31.61	28.00	44.09	57.4%
LPG (kilotonnes)	135.32	121.81	183.97	51.0%
Oil (million barrels)	1.31	1.11	1.49	34.9%
Total Equivalent (million barrels of oil equivalent)	7.58	6.67	10.20	52.8%

Kupe 3P Total Reserves Reconciliation

	30 June 2015 Position	30 June 2015 Position less subsequent Production	Reserve Position as at 30 June 2016	Year-on-Year % Change
Gas (petajoules)	45.69	42.09	55.34	31.5%
LPG (kilotonnes)	194.26	180.75	233.13	28.4%
Oil (million barrels)	2.03	1.82	1.78	-2.2%
Total Equivalent (million barrels of oil equivalent)	11.08	10.17	12.72	25.0%

Some rounding.

Tui Field Life

The Tui asset continues to perform well in a production and operational sense. Pateke-4H has consistently outperformed pre-drill expectations both in terms of peak and subsequent oil production rates, as well as through a slower than expected water cut development. Now having more than twelve months of production data from Pateke-4H, New Zealand Oil & Gas has adjusted upwards its technical forecast for the field. Simultaneous to this, the current market conditions have yielded a more optimistic forecast of crude prices. The combination of these effects mean that New Zealand Oil & Gas now sees Tui asset life extending longer than the position as at the FY16 interim report. Economic field life is now assumed out to December 2019.

Table of 2P Total Reserves Reconciliation

Reserve Product	30 June 2015 Position	30 June 2015 Position less subsequent Production	Reserve Position as at 30 June 2016	Year-on-Year % Change
Oil (million barrels)	1.13	0.75	0.85	13.3%

Remaining oil and gas reserves as at 30 June 2016

Geographic area	Proved (1P) Reserves											
	Developed				Undeveloped				Total			
As at evaluation date 30/6/2016	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	Total (million barrels of oil equivalent)	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	total (million barrels of oil equivalent)	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	Total (million barrels of oil equivalent
New Zealand												
Tui			0.29	0.29							0.29	0.29
Kupe	20.03	84.88	0.82	4.78	9.95	40.72	0.42	2.37	29.98	125.59	1.23	7.15
Maari			0.51	0.51							0.51	0.51
Indonesia												
Sampang PSC	4.02			0.70	2.85			0.47	6.87		0.04	1.16
USA												
Pine Mills			0.37	0.37							0.37	0.37

Geographic area	Proved + Probable (2P) Reserves											
	Developed				Undeveloped				Total			
As at evaluation date 30/6/2016	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	Total (million barrels of oil equivalent)	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	total (million barrels of oil equivalent)	Gas (Petajoules)	LPG (kilotonnes)	Oil & Condensate (million barrels)	Total (million barrels of oil equivalent
New Zealand												
Tui			0.85	0.85							0.85	0.85
Kupe	25.00	105.21	0.92	5.87	19.09	78.76	0.57	4.33	44.09	183.97	1.49	10.20
Maari			1.30	1.30							1.30	1.30
Indonesia												
Sampang PSC	5.04		0.06	0.88	3.50			0.58	8.54		0.06	1.46
USA												
Pine Mills			0.48	0.48							0.48	0.48

Some rounding.

Contingent Resources

2C Resources at 30 June 2016:

As at evaluation date 30/6/2016	Permit	Accumulation	Equity	Gas (Petajoules)	Oil (million barrels)	Total Oil Equivalent (million barrels equivalent)
New Zealand	Kupe	Toru	15%	2.69	0.12	0.56
New Zealand	Kupe	KS4	15%	0.99	0.03	0.19
New Zealand	Kupe	Momoho West	15%	0.39	0.01	0.07
New Zealand	Kupe	KS5	15%	-	0.23	0.23
New Zealand	Kupe	Kupe Oil Rim	15%	-	0.87	0.87
New Zealand	Galleon*	Galleon	100%	98.28	4.91	20.97
New Zealand	Clipper	Clipper	50%	87.47	6.56	20.85
New Zealand	Maari	Maari	5%	-	1.32	1.32
Indonesia	Kisaran PSC	Parit Minyak	22.5%	-	2.00	2.00
Indonesia	Sampang PSC	Jeruk	8.18%	-	1.24	1.24
Indonesia	Sampang PSC	Oyong	15%	2.00	-	0.32
New Zealand	**Total**			**189.82**	**14.05**	**45.06**
Indonesia	**Total**			**2.00**	**3.24**	**3.56**
Total				**191.82**	**17.29**	**48.62**

Cue's full interest is shown.

*The company applied to surrender the permit on 16 August 2016.

See Statement, page 10.

Million barrels of oil equivalent have been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion factors consistent with the Society of Petroleum Engineers (SPE) guidelines. Conversion factors used were: 163.40 barrels of oil equivalent per terajoule of natural gas and 8.15 barrels of oil equivalent per tonne of LPG.

Prospective Resources

Prospective Resources at 30 June 2016

	Permit	Accumulation	Maturity Sub-Class	Equity	Best Estimate of Net, Unrisked Prospective Resources (mmboe)
Conventional					
New Zealand	Clipper	Barque	Prospect	50.0%	265
Indonesia	Kisaran PSC	Belongkut	Prospect	22.5%	1.76
Indonesia	Kisaran PSC	Parepare Deep	Prospect	22.5%	1.15
Indonesia	Kisaran PSC	Kualu	Prospect	22.5%	1.71
Indonesia	Kisaran PSC	Parepare West	Prospect	22.5%	0.70
Indonesia	Kisaran PSC	Prospect T	Prospect	22.5%	0.32
Indonesia	Kisaran PSC	Gariangkopi	Lead	22.5%	2.88
Indonesia	Kisaran PSC	Alurannaga	Lead	22.5%	2.07
Indonesia	Kisaran PSC	Nabara	Lead	22.5%	2.79
Indonesia	Kisaran PSC	Pangkatan	Lead	22.5%	2.25
Indonesia	Bohorok PSC	Bukit Kaya	Prospect	45.0%	5.21
Indonesia	Bohorok PSC	Bukit Kaya Barat	Prospect	45.0%	5.65
Indonesia	Bohorok PSC	Bukit Kaya Utara	Prospect	45.0%	3.14
Indonesia	Palmerah Baru PSC	Lead A	Lead	36.0%	1.62
Indonesia	Palmerah Baru PSC	Lead B	Lead	36.0%	15.31
Indonesia	Palmerah Baru PSC	Lead C	Lead	36.0%	3.45
Indonesia	Palmerah Baru PSC	Lead D	Lead	36.0%	0.70
Indonesia	Palmerah Baru PSC	Lead E	Lead	36.0%	1.04
Indonesia	Palmerah Baru PSC	Lead F	Lead	36.0%	0.52
Indonesia	Palmerah Baru PSC	Lead G	Lead	36.0%	0.63
Indonesia	Palmerah Baru PSC	Lead H	Lead	36.0%	0.62
Unconventional					
Indonesia	MNK Kisaran PSC	Barumun Deep	Lead	11.3%	292
Indonesia	MNK Palmerah PSC	East Ketaling Deep	Lead	15.8%	298
Conventional Total					**319**
Unconventional Total					**590**
New Zealand Total					**265**
Indonesia Total					**643**
Total					**908**

All reserve and resource totals shown are arithmatic summations and are subject to rounding.

See Statement, page 10.

Reserves, Contingent & Prospective Resources Statement

Oil and gas reserves, and contingent and prospective resources, are reported as at 30 June 2016 and follow the SPE PRMS Guidelines (2011).

New Zealand Oil & Gas is not aware of new information or data that materially affects the prospective resource estimates. All material assumptions and technical parameters underpinning the estimate continue to apply and have not materially changed. The estimated quantities of petroleum that may potentially be recovered by the application of the future development project(s) relate to undiscovered accumulations. These estimates have both an associated risk of discovery and a risk of development. Further exploration appraisal and evaluation is required to determine the existence of a significant quantity of potentially moveable hydrocarbons.

The Kupe reserves estimate is based on six years of production data and a full probabilistic uncertainty analysis of reservoir simulation models provided by the field operator, Origin Energy, with deterministic cases selected as appropriate.

The Tui reserves estimate is based on the latest information provided by the field operator. The estimate is the result of deterministic decline curve analysis of the Tui area reservoirs, including the Pateke-4H recent well production performance data.

The Maari, Sampang and Pine Mills reserves report is based on information provided by Cue Energy Resources. The Oyong estimates are based on the operator's probabilistic reservoir simulations. Maari is independently assessed using probabilistic well-by-well decline curve analysis. The Wortel and Pine Mills estimates are based on deterministic decline curve analysis.

For the conversion to equivalent units, standard industry factors have been used of 6Bcf to 1mmboe, 1Bcf to 1.05PJ, 8.15 tonnes of LPG to 1 boe and 163.4TJ of gas to 1 boe.

Proven (1P) reserves are estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty (90% chance) to be recoverable in future years from known reservoirs, under existing economic and operating conditions. Probable (2P) reserves have a 50% chance or better of being technically and economically producible.

Estimates of additional Kupe, non-operated reserves are based on their value in use with a discount rate of 10% applied. The oil price assumptions are based on the Bloomberg consensus mean, with contracted volumes of gas and LPG sold on current contract terms. For volumes in excess of current contracts, a future base market price of $6/gigajoule is assumed for gas sales and LPG prices are linked to the Bloomberg consensus mean forecast for oil.

Known accumulations are reserves or contingent resources that have been discovered by drilling a well and testing, sampling or logging a significant quantity of recoverable hydrocarbons.

Developed reserves are expected to be recoverable from existing wells and facilities. Undeveloped reserves will be recovered through future investments (e.g. through installation of compression, new wells into different but known reservoirs, or infill wells that will increase recovery).

Total reserves are the sum of developed and undeveloped reserves at a given level of certainty.

Contingent resources are quantities of petroleum estimated to be potentially recoverable through development of known accumulations but which are not currently considered to be commercially recoverable due to one or more contingencies.

The term 2C refers to a best estimate scenario of contingent resources. A 'best estimate' is the most realistic assessment of recoverable quantities if only a single result were reported. If probabilistic methods are used, there should be at least a 50% probability (P50) that the quantities actually recovered will equal or exceed the best estimate.

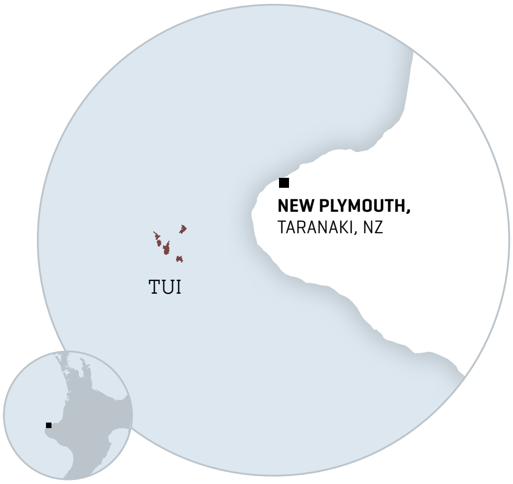
Prospective resources are those quantities of petroleum which are estimated, as of a given date, to be potentially recoverable from undiscovered accumulations.

All contingent and prospective resources are derived from probabilistic in-place methods, with a deterministic view of recoverable volumes.

All reserves and resources reported refer to hydrocarbon volumes post-processing and immediately prior to point of sale. The volumes refer to standard conditions, defined as 14.7psia and 60°F.

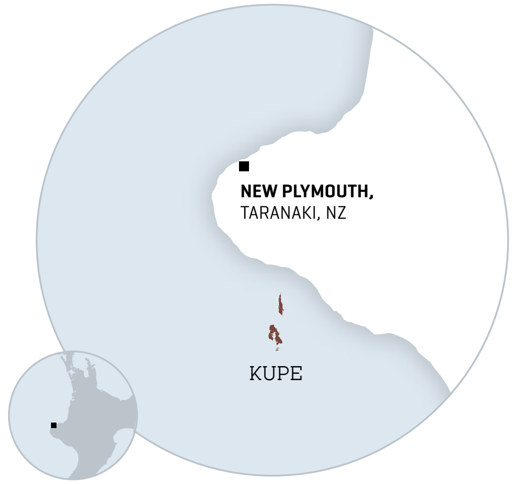
This reserves and resources statement is approved by, based on, and fairly represents information and supporting documentation prepared by New Zealand Oil & Gas acting CEO Andrew Jefferies, B Eng (Mech Hons), MSc Pet Eng, MBA, and SPE (Society of Petroleum Engineers) Certified Petroleum Engineer with 25 years of industry experience. New Zealand Oil & Gas reviews reserves holdings twice a year by reviewing data supplied from the field operator and comparing assessments at scheduled Technical Committee Meetings.

New Zealand Production Locations



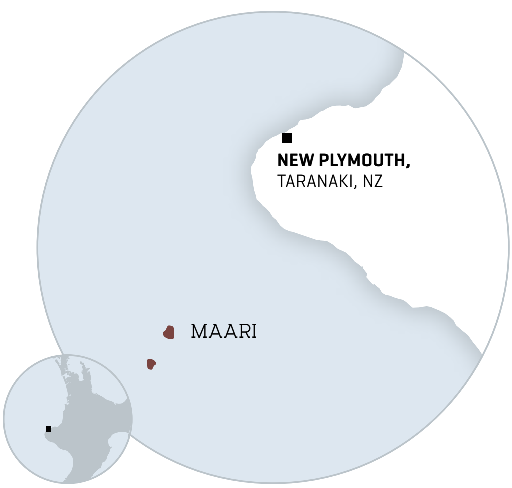
Tui

27.5%	**New Zealand Oil & Gas**
57.5%	AWE (Operator)
15%	Pan Pacific Petroleum



Kupe

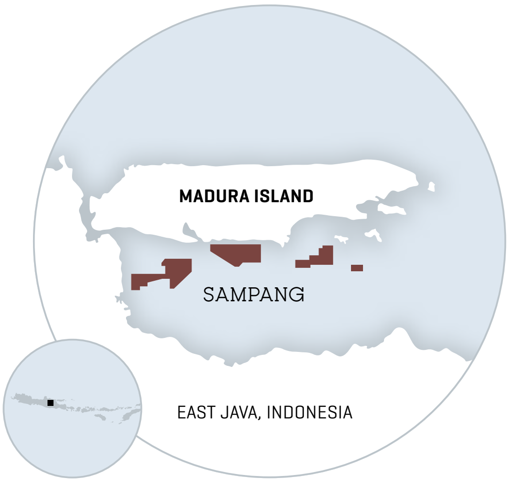
15%	**New Zealand Oil & Gas**
31%	Genesis Energy
50%	Origin Energy (Operator)
4%	Mitsui

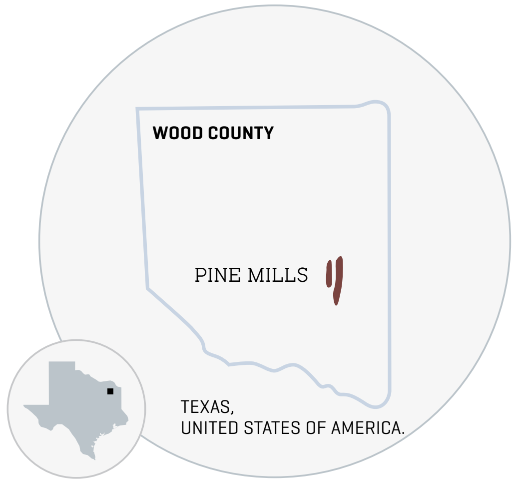


Maari

5%	**Cue Energy**
10%	Horizon Oil International
69%	OMV New Zealand (Operator)
16%	Todd Maari

International Production Locations





Sampang Production Sharing Contract

15%	**Cue Energy**
45%	Santos Sampang (Operator)
40%	Singapore Petroleum Company

Pine Mills

80%	**Cue Energy** (Operator)
20%	Gale Force Petroleum

FINANCIAL STATEMENTS

Consolidated Financial Statements

for the year ended 30 June 2016

The Board of Directors of New Zealand Oil & Gas Limited authorise these consolidated Financial Statements for issue on 23 August 2016.

For and on behalf of the Board.

Rodger J Finlay
Chairman

23 August 2016

Mark Tume
Director

23 August 2016

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers		**136,840**	120,578
Production and marketing expenditure		**(46,082)**	(31,925)
Supplier and employee payments (inclusive of GST)		**(21,304)**	(19,792)
Income taxes paid		**(11,827)**	(5,982)
Royalties paid		**(6,349)**	(6,944)
Other		**4,917**	3,336
Net cash inflow from operating activities		**56,195**	59,271
Cash flows from investing activities			
Sale of shares in Pan Pacific Petroleum NL		**-**	4,708
Exploration and evaluation expenditure		**(23,466)**	(31,870)
Oil and gas asset expenditure		**(11,508)**	(19,256)
Acquisition of subsidiary, net of cash acquired		**-**	(4,229)
Purchase of oil and gas interest		**-**	(2,759)
Property, plant and equipment expenditure		**(170)**	(609)
Loan repayment from related entity		**-**	1,446
Net cash outflow from investing activities		**(35,144)**	(52,569)
Net cash inflow from operating and investing activities		**21,051**	6,702
Cash flows from financing activities			
Issue of shares		**78**	-
Repayment of capital/cancellation of shares		**(1,046)**	(63,163)
Sale of forfeited shares		**-**	927
Dividends paid		**-**	(8,895)
Other		**(77)**	(71)
Net cash outflow from financing activities		**(1,045)**	(71,202)
Net increase/(decrease) in cash and cash equivalents		**20,006**	(64,500)
Cash and cash equivalents at the beginning of the year		**83,659**	135,075
Exchange rate effects on cash and cash equivalents		**(6,854)**	13,084
Cash and cash equivalents at end of the year		**96,811**	83,659

The notes to the financial statements are an integral part of these financial statements.

Reconciliation of loss for the year to net cash inflow from operating activities

	2016 $000	2015* $000
Loss for the year	**(51,794)**	(15,474)
Depreciation and amortisation	**49,450**	40,095
Deferred tax	**(8,035)**	(16,233)
Reversal of impairment of loan	**-**	(1,446)
Exploration expenditure included in investing activities	**21,504**	24,083
Asset impairment	**26,605**	36,300
Gain on purchase of subsidiary	**-**	(15,357)
Net foreign exchange differences	**2,469**	(1,433)
Unwind of discount on provision	**1,689**	2,832
Discontinued operations – non cash portion of loss	**1,437**	-
Stock movement	**2,802**	-
Other	**468**	1,079
Change in operating assets and liabilities		
Movement in trade debtors	**16,422**	2,795
Movement in trade creditors	**(8,849)**	(4,575)
Movement in inventory	**2,477**	1,538
Movement in tax payable	**(450)**	5,067
Net cash inflow from operating activities	**56,195**	59,271

The notes to the financial statements are an integral part of these financial statements.
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2016

	Notes	2016 $000	2015* $000
Revenue	5	**119,028**	116,235
Operating costs	6	**(48,252)**	(36,884)
Exploration and evaluation expenditure		**(21,504)**	(24,083)
Other income	5	**6,628**	17,862
Other expenses	7	**(17,581)**	(13,934)
Results from operating activities excluding amortisation, impairment and net finance costs		**38,319**	59,196
Amortisation of production assets		**(48,944)**	(39,639)
Asset impairment	16	**(26,605)**	(36,300)
Net finance (costs)/income	8	**(3,807)**	2,895
Loss before income tax and royalties		**(41,037)**	(13,848)
Income tax (expense)/credit	9	**(3,422)**	5,032
Royalties expense	10	**(4,017)**	(6,658)
Loss after tax from continuing operations		**(48,476)**	(15,474)
Loss after tax from discontinuing operations	24	**(3,318)**	-
Loss for the year		**(51,794)**	(15,474)
Loss for the year attributable to:			
Shareholders of the Group		**(29,763)**	(14,394)
Non-controlling interest		**(22,031)**	(1,080)
Loss for the year		**(51,794)**	(15,474)
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Fair value loss through other comprehensive income		**-**	(3,652)
Items that may be classified to profit or loss			
Foreign currency translation differences		**(7,967)**	26,695
Total other comprehensive (loss)/income for the year		**(59,761)**	7,569
Total comprehensive loss for the year is attributable to:			
Shareholders of the Group		**(35,942)**	8,649
Non-controlling interest		**(23,819)**	(1,080)
Total comprehensive (loss)/income for the year		**(59,761)**	7,569
Total comprehensive (loss)/income for the year is attributable to:			
Continuing operations		**(56,443)**	7,569
Discontinuing operations		**(1,277)**	-
Discontinuing operations - non-controlling interest		**(2,041)**	-
Total comprehensive (loss)/income for the year		**(59,761)**	7,569
Loss per share			
Basic and diluted (cents per share)	23	**(8.6)**	(3.5)

The notes to the financial statements are an integral part of these financial statements.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	2016 $000	2015* $000
Assets			
Current assets			
Cash and cash equivalents	11	**96,811**	83,659
Receivables and prepayments	12	**13,156**	29,579
Inventories		**9,166**	8,842
Assets held for sale	24	**2,088**	-
Total current assets		**121,221**	122,080
Non-current assets			
Evaluation and exploration assets	15	**14,580**	15,258
Oil and gas assets	16	**207,937**	289,356
Property, plant and equipment		**193**	277
Other intangible assets		**1,042**	1,449
Other financial assets	17	**1,891**	1,960
Total non-current assets		**225,643**	308,300
Total assets		**346,864**	430,380
Liabilities			
Current liabilities			
Payables	18	**17,399**	31,415
Current tax liabilities		**3,175**	3,625
Rehabilitation provision	19	**1,548**	-
Total current liabilities		**22,122**	35,040
Non-current liabilities			
Borrowings		**1,137**	1,001
Rehabilitation provision	19	**77,458**	78,930
Other provisions	20	**6,350**	6,864
Deferred tax liability	9	**18,597**	26,706
Total non-current liabilities		**103,542**	113,501
Total liabilities		**125,664**	148,541
Net assets		**221,200**	281,839
Equity			
Share capital	21	**318,089**	319,060
Reserves	22	**1,051**	(1,563)
Retained earnings		**(111,382)**	(71,131)
Attributable to shareholders of the Group		**207,758**	246,366
Attributable to non-controlling interest in subsidiaries		**13,442**	35,473
Total equity		**221,200**	281,839
Net asset backing per share (cents per share)		**64**	82
Net tangible asset backing per share (cents per share)		**59**	76

The notes to the financial statements are an integral part of these financial statements.
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Issued capital $000	Reserves $000	Retained earnings $000	Total Equity $000	Non-controlling interest $000	Total equity $000
Balance as at 1 July 2015*	**319,060**	**(1,563)**	**(71,131)**	**246,366**	**35,473**	**281,839**
Comprehensive income						
Loss for the year	-	-	(29,763)	(29,763)	(22,031)	(51,794)
Other comprehensive income, net of tax						
Foreign currency translation differences	-	(7,967)	-	(7,967)	-	(7,967)
Total comprehensive income	-	(7,967)	(29,763)	(37,730)	(22,031)	(59,761)
Transactions with shareholders of the Group						
Shares issued	68	-	-	68	-	68
Buy back of issued shares	(1,046)	-	-	(1,046)	-	(1,046)
Partly paid shares issued	7			7	-	7
Share based payment	-	93	-	93	-	93
Transfer of expired share based payments	-	(46)	46	-	-	-
Asset revaluation reserve transferred to retained earnings	-	10,534	(10,534)	-	-	-
Balance as at 30 June 2016	**318,089**	**1,051**	**(111,382)**	**207,758**	**13,442**	**221,200**

The notes to the financial statements are an integral part of these financial statements.
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

	Issued capital $000	Reserves $000	Retained earnings $000	Total Equity $000	Non-controlling interest $000	Total equity $000
Balance as at 1 July 2014*	377,662	(24,620)	(44,302)	308,740	-	308,740
Comprehensive income						
Loss for the year	-	-	(14,394)	(14,394)	(1,080)	(15,474)
Other comprehensive income, net of tax						
Fair value loss through other comprehensive income	-	(3,652)	-	(3,652)	-	(3,652)
Foreign currency translation differences	-	26,695	-	26,695	-	26,695
Total comprehensive income	**-**	**23,043**	**(14,394)**	**8,649**	**(1,080)**	**7,569**
Transactions with shareholders of the Group						
Non-controlling interest arising on acquisition of subsidiary	-	-	-	-	36,553	36,553
Shares issued	4,560	-	-	4,560	-	4,560
Buy back of issued shares	(63,163)	-	-	(63,163)	-	(63,163)
Partly paid shares issued	1	-	-	1	-	1
Share based payment	-	72	-	72	-	72
Transfer of expired share based payments	-	(58)	58	-	-	-
Dividends paid (3 cents per ordinary share)	-	-	(12,493)	(12,493)	-	(12,493)
Balance as at 30 June 2015 *	**319,060**	**(1,563)**	**(71,131)**	**246,366**	**35,473**	**281,839**

The notes to the financial statements are an integral part of these financial statements.
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

Notes to Financial Statements

For the year ended 30 June 2016

1. Basis of accounting

Reporting entity

New Zealand Oil & Gas Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the Main Board equity security market operated by NZX Limited (NZX). The financial statements presented are for New Zealand Oil & Gas Limited, its subsidiaries and interests in associates and jointly controlled operations (together referred to as the Group). The Group is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and the Financial Reporting Act 2013. They comply with the NZ equivalents to International Financial Reporting Standards (NZ IFRS) as appropriate for profit-oriented entities, and with International Financial Reporting Standards (IFRS).

The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars (NZD or $) rounded to the nearest thousand unless otherwise stated. The financial statements are prepared on a goods and services tax (GST) exclusive basis except billed receivables and payables which include GST.

These financial statements are prepared on the basis of historical cost except where otherwise stated in specific accounting policies contained in the accompanying notes.

Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. Intra-group balances, transactions, unrealised income or expenses arising from intra-group transactions and dividends are eliminated in preparing the Group financial statements. A list of subsidiaries and associates is shown in notes 13 and 14.

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 the 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.

2. Critical accounting 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.

The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to:

- **recoverability of evaluation and exploration assets and oil and gas assets**. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 15, 16 and 25(a)(ii)).
- **provision for rehabilitation obligations** includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 19).
- **recoverability of deferred tax asset**. Assessment of the ability of entities in the Group to generate future taxable income (refer to note 9).

3. Changes in accounting policies

The Group elected to switch from full cost to successful efforts method of accounting at 31 December 2015 for its investments in oil and gas exploration assets. The successful efforts method is an alternative method of accounting for exploration and evaluation costs in the energy industry. Under the successful efforts method, all general exploration and evaluation costs are expensed as incurred, except the direct costs of acquiring the right to explore, drilling exploratory wells and evaluating the results of drilling. Only the costs of successful exploration wells are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

The Group believes that, with its increased focus on development and production activities and post the Cue Energy Resources Limited ("Cue") acquisition, the successful efforts method of accounting provides transparency of costs in the profit or loss for the period in which exploration activities are undertaken or subsequently the realisation of assets post any discovery. As a result, the Group believes that the change in accounting method was appropriate.

The change in accounting method constituted a "Change in Accounting Principle," which required that prior period financial statements be restated to reflect the results and balances that would have been reported had the company been following the successful efforts method of accounting from its inception. The cumulative effect of the change in accounting method since 30 June 2014 is set out in the following table:

	Full Year 30 June 2015	Full Year 30 June 2014
Increase in exploration and evaluation costs expensed	8,521	-
Increase in income tax expense	791	-
Increase in loss for the year	9,312	-
Decrease in exploration asset	(54,956)	(43,084)
Decrease in deferred tax liability	8,894	9,685
Decrease/(increase) in FCTR	2,405	(946)
Decrease in retained earnings	42,644	34,345
Decrease in non-controlling interest	1,013	-
Cents per share		
Decrease in earnings per share	(2.0)	(4.2)
Decrease in net asset per share	(13)	(8)
Increase in net tangible asset per share	2	2

Adoption status of relevant new financial reporting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 July 2016 but which the company has not early adopted.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 9 Financial Instruments

The impact of these accounting standards is currently being assessed.

4. Segment information

All operating segments' operating results are reviewed regularly by the Group's chief executive officer (CEO), the entity's chief decision maker, and have discrete financial information 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.

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

- Tui area oil field: 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 oil and gas 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.
- Oil & gas exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand and in Indonesia.
- Cue Energy Resources Limited (Cue): the Group acquired a controlling interest in Cue during the 2015 financial year and have consolidated performance for the last three months of that year. Management have treated this as a separate operating segment.

2016	Tui oil $000	Kupe oil & gas $000	Oil & gas exploration $000	Other & unallocated $000	Cue Energy Resources Ltd $000	Total $000
Sales to external customers - NZ	7,218	40,551	-	-	29,854	77,623
Sales to external customers - other countries	12,328	9,385	-	-	19,692	41,405
Total sales revenue	19,546	49,936	-	-	49,546	119,028
Other income	-	2,367	-	181	4,080	6,628
Total revenue and other income	19,546	52,303	-	181	53,626	125,656
Impairment of oil and gas assets	-	-	-	-	(26,605)	(26,605)
Segment result	(11,422)	18,589	(4,044)	(8,424)	(31,929)	(37,230)
Other net finance costs						(3,807)
Loss before income tax and royalties						(41,037)
Income tax and royalties expense						(7,439)
Loss after tax from continuing operations						(48,476)
Loss after tax from discontinuing operations	-	-	-	-	(3,318)	(3,318)
Loss for the year						(51,794)
Segment assets	27,274	133,236	17,084	-	47,427	225,021
Assets held for sale	-	-	-	-	2,088	2,088
Unallocated assets						119,755
Total assets						346,864
Included in segment results: Depreciation and amortisation expense	13,895	21,176	-	469	13,910	49,450

2015*	Tui oil $000	Kupe oil & gas $000	Oil & gas exploration $000	Other & unallocated $000	Cue Energy Resources Ltd $000	Total $000
Sales to external customers - NZ	-	42,903	-	-	-	42,903
Sales to external customers - other countries	42,655	19,582	-	-	11,095	73,332
Total sales revenue	42,655	62,485	-	-	11,095	116,235
Gain on purchase of subsidiary	-	-	-	15,357	-	15,357
Other income	-	2,183	-	322	-	2,505
Total revenue and other income	42,655	64,668	-	15,679	11,095	134,097
Impairment of oil and gas assets	(36,300)	-	-	-	-	(36,300)
Segment result	(28,860)	29,881	(24,083)	3,956	2,363	(16,743)
Other net finance income						2,895
Loss before income tax and royalties						(13,848)
Income tax and royalties expense						(1,626)
Loss for the year						(15,474)
Segment assets	46,330	151,330	15,258	-	94,493	307,411
Unallocated assets						122,969
Total assets						430,380
Included in segment results: Depreciation and amortisation expense	14,207	22,570	-	451	2,876	40,095

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

5. Revenue

Sales comprise revenue earned from the sale of petroleum products, when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer. Revenue is recognised at the fair value of the consideration received net of the amount of GST.

Royalty income is recognised on the date the Group's right to receive payment is established and the amount can be reliably measured.

	2016 $000	2015 $000
Revenue		
Petroleum sales	**119,028**	116,235
Total revenue	**119,028**	116,235
Other income		
Insurance proceeds	**4,080**	-
Royalty income	**1,376**	1,980
Carbon emission expenditure recovered	**970**	13
Gain on purchase of subsidiary (i)	**-**	15,357
Other income	**202**	512
Total other income	**6,628**	17,862
Total income	**125,656**	134,097

(i) During 2015 New Zealand Oil & Gas Limited acquired a controlling interest in Cue Energy Resources Limited, resulting in Cue being consolidated into the Group. The acquisition resulted in a gain on purchase as the consideration paid was less than the fair value of the assets acquired, liabilities assumed and non-controlling interest recognised.

6. Operating Costs

	2016 $000	2015 $000
Production and sales marketing costs	**43,292**	32,903
Carbon emission expenditure	**1,542**	465
Insurance expenditure	**1,675**	1,979
Movement in inventory	**1,703**	2,322
Movement in stock over/(under) lift	**40**	(785)
Total operating costs	**48,252**	36,884

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 under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in profit or loss.

7. Other expenses

Classification of other expenses by nature

	2016 $000	2015 $000
Audit fees paid to the Group auditor - KPMG	**138**	153
Audit fees paid to other auditors - BDO	**106**	93
Directors' fees	**1,228**	699
Legal fees	**533**	618
Consultants' fees	**739**	1,942
Employee expenses (i)	**9,853**	6,260
Depreciation	**100**	87
Amortisation of intangible assets	**407**	369
Share based payment expense	**93**	72
IT and software expenses	**962**	858
Donations	**-**	-
Pre-permit expenditure	**548**	462
Registry and stock exchange fees	**320**	410
Other	**2,554**	1,911
Total other expenses	**17,581**	13,934

(i) Employee expenses are net of $3.1 million (2015: $2.6 million) recharged to exploration and evaluation expense and recharged to operated joint ventures.

	2016 $000	2015 $000
Fees paid to the Group auditor		
Audit and review of financial statements	**138**	153
Non audit related services:		
Tax compliance services	**157**	109
Tax advisory services	**90**	298
Other assurance services	**-**	33
Total fees paid to Group auditor	**385**	593
Fees paid to the Cue Energy auditors (for the year) - BDO		
Audit and review of subsidiary financial statements	**106**	93
Non audit related services:		
Tax compliance services	**22**	15
Tax advisory services	**122**	-
Other assurance services	**-**	1
Total fees paid to other auditors	**250**	109

8. Net finance income and costs

	2016 $000	2015 $000
Finance costs		
Interest and finance charges	**(341)**	(119)
Unwinding of discount on provisions	**(1,689)**	(2,832)
Exchange losses on foreign currency balances	**(2,501)**	-
Total finance costs	**(4,531)**	(2,951)
Finance income		
Interest income	**699**	2,967
Exchange gains on foreign currency balances	**-**	1,433
Reversal of impairment of loan to related entities	**25**	1,446
Total finance income	**724**	5,846
Net finance (costs)/income	**(3,807)**	2,895

9. Taxation

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Current and deferred tax are recognised in profit or loss except when the tax relates to items recognised in other comprehensive income, in which case the tax is also recognised in other comprehensive income.

	2016 $000	2015* $000
a) Income tax expense		
Current tax	**11,421**	11,201
Deferred tax	**(7,999)**	(16,233)
Total income tax expense/(credit)	**3,422**	(5,032)
b) Income tax expense calculation		
Loss before income tax expense and royalties	**(41,037)**	(13,848)
Less: royalties expense	**(4,017)**	(6,658)
Loss before income tax expense	**(45,054)**	(20,506)
Tax at the New Zealand tax rate of 28%	**(12,615)**	(5,742)
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	**2,510**	35
Non-deductible write off	**256**	988
Gain on purchase of subsidiary	**-**	(4,300)
Foreign exchange adjustments	**-**	866
Unrealised timing differences	**10,506**	2,386
Other expenses/(income)	**97**	(344)
	754	(6,111)
Under provision in prior years	**2,668**	1,079
Income tax expense/(credit)	**3,422**	(5,032)
c) Imputation credits available for subsequent reporting periods	**15,025**	8,843

(d) Deferred tax

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and future tax benefits are recognised where realisation of the asset is probable. 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.

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.

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. As at 30 June 2016 Cue have accumulated losses in New Zealand of $26.8 million (30 June 2015: $21.0 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to Cue satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

9. Taxation (continued)

	2016 $000	2015 $000*
The balance comprises temporary differences attributable to:		
Non-deductible provisions	**18,542**	22,195
Tax losses	**-**	5,875
	18,542	28,070
Other		
Exploration assets	**(186)**	(186)
Oil & gas assets	**(36,953)**	(53,060)
Other items	**-**	(1,530)
Total other	**(37,139)**	**(54,776)**
Net deferred tax liabilities	**(18,597)**	**(26,706)**
Movements:		
Net deferred tax liability at 1 July	**(26,706)**	(34,822)
Recognised on acquisition	**-**	(4,924)
Recognised in profit or loss	**7,999**	16,233
Recognised in other comprehensive income	**110**	(3,193)
Closing balance at end of year	**(18,597)**	**(26,706)**

10. Royalties expense

Royalty expenses incurred by the Group relate to petroleum royalty payments to the New Zealand Government in respect of the Tui, Kupe and Maari oil and gas fields, and are recognised on an accrual basis.

11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, short-term deposits and deposits on call with an original maturity of three months or less.

	2016 $000	2015 $000
Cash at bank and in hand	**37,379**	15,999
Deposits at call	**31,317**	33,159
Short term deposits	**20,768**	22,965
Share of oil and gas interests' cash	**7,347**	11,536
Total cash and cash equivalents	**96,811**	83,659

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $56.8 million denominated in US dollars; NZ dollar equivalent $79.9 million (2015: US dollars $30.8 million; NZ dollar equivalent $45.3 million) and $0.6 million denominated in AU dollars, NZ dollar equivalent $0.6 million (2015: AU dollars $0.4 million, NZ dollar equivalent $0.5 million) and $1.3 million denominated in ID rupiah, NZ dollar equivalent $0.1 million (2015: ID rupiah $1.9 million, NZ dollar equivalent $0.2 million).

Deposits at call and short-term deposits

The deposits at call and short term deposits are bearing interest rates between 0.1% and 2.6% (2015: 0.2% and 3.6%).

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

12. Receivables and prepayments

	2016 $000	2015 $000
Trade receivables	**6,193**	21,322
Share of oil and gas interests' receivables	**6,429**	6,855
Prepayments	**532**	702
Other	**2**	700
Total receivables and prepayments	**13,156**	29,579

Trade receivables denominated in currencies other than the presentation currency comprise $5.7 million denominated in US dollars; NZ dollar equivalent $8.8 million (2015: $11.6 million denominated in US dollars; NZ dollar equivalent $17.1 million) and $0.1 million denominated in AU dollars, NZ dollar equivalent $0.1 million (2015: AU dollars $0.1 million; NZ dollar equivalent $0.1 million).

13. Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, has exposure or rights to variable returns from this involvement and when it has the ability to use its power to affect the amount of the returns.

As of 1 April 2015 the Group held a 48.11% interest in Cue Energy Resources Limited which provided sufficient voting rights to unilaterally direct the relevant activities of the investee by way of its representation on Cue's Board and the relative size and dispersion of other voting interests in Cue. Cue entities below reflect the Group's 48.11% interest in Cue subsidiaries.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position respectively.

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 functional currency of the subsidiaries within the Group are shown below.

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

Name of entity	Country of incorporation	Equity Holding 2016 %	2015 %	Functional Currency
New Zealand Oil & Gas				
ANZ Resources Pty Limited	Australia	**100**	100	AUD
Australia and New Zealand Petroleum Limited	New Zealand	**100**	100	NZD
Kupe Royalties Limited	New Zealand	**100**	100	NZD
National Petroleum Limited	New Zealand	**100**	100	NZD
Nephrite Enterprises Limited	New Zealand	**100**	100	NZD
NZOG 54867 Limited	New Zealand	**100**	100	NZD
NZOG 38483 Limited	New Zealand	**100**	100	NZD
NZOG 2013 O Limited	New Zealand	**100**	100	NZD
NZOG Asia Pty Limited	Australia	**100**	100	USD
NZOG Bohorok Pty Limited	Australia	**100**	100	USD
NZOG 54857 Limited	New Zealand	**100**	100	NZD
NZOG Developments Limited	New Zealand	**100**	100	NZD
NZOG Devon Limited	New Zealand	**100**	100	NZD
NZOG 2013T Limited	New Zealand	**100**	100	NZD
NZOG Energy Limited	New Zealand	**100**	100	NZD
NZOG Palmerah Baru Pty Limited	Australia	**100**	100	USD
NZOG Offshore Limited	New Zealand	**100**	100	NZD
NZOG Pacific Holdings Pty Limited	Australia	**100**	100	USD
NZOG Pacific Limited	New Zealand	**100**	100	NZD
NZOG Services Limited	New Zealand	**100**	100	NZD
NZOG Taranaki Limited	New Zealand	**100**	100	NZD
NZOG Tunisia Pty Limited	Australia	**100**	100	USD
Oil Holdings Limited	New Zealand	**100**	100	NZD
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90**	90	USD
Petroleum Equities Limited	New Zealand	**100**	100	NZD
Petroleum Resources Limited	New Zealand	**100**	100	NZD
Resource Equities Limited	New Zealand	**100**	100	NZD
Stewart Petroleum Co Limited	New Zealand	**100**	100	USD
NZOG MNK Kisaran Pty Limited	Australia	**100**	100	USD
NZOG MNK Bohorok Pty Limited	Australia	**100**	100	USD
NZOG MNK Palmerah Pty Limited	Australia	**100**	100	USD
Cue Energy Resources				
Cue Energy Resources Limited	Australia	**48.1**	48.1	AUD
Cue Mahakam Hilir Pty Limited	Australia	**48.1**	48.1	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	**48.1**	48.1	AUD
Cue Sampang Pty Limited	Australia	**48.1**	48.1	AUD
Cue Taranaki Pty Limited	Australia	**48.1**	48.1	AUD
Cue Resources Inc	USA	**38.5**	38.5	USD
Buccaneer Operating LLC	USA	**38.5**	38.5	USD
Cue Kalimantan Pte Ltd	Singapore	**48.1**	48.1	USD
Cue Mahato Pty Ltd	Australia	**48.1**	48.1	AUD
Cue Exploration Pty Limited	Australia	**48.1**	48.1	AUD
Cue Cooper Pty Ltd	Australia	**48.1**	-	AUD
Cheetah Energy Services LLC	USA	**48.1**	-	USD

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 and production industry.

14. Oil and gas interests

The Group has interests in a number of joint arrangements which are classified as joint operations. 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 joint control commences until the date that joint control ceases. The Group held the following oil and gas production, exploration, evaluation and appraisal interests at the end of the year.

Name	Country	Type	Interest held 2016 %	Interest held 2015 %
New Zealand Oil & Gas				
PML 38146 – Kupe	New Zealand	Mining Licence	**15.0**	15.0
PMP 38158 – Tui	New Zealand	Mining Permit	**27.5**	27.5
PEP 52717 – Clipper	New Zealand	Exploration Permit	**50.0**	50.0
PEP 51906 – Matuku	New Zealand	Exploration Permit	**12.5**	12.5
PEP 52181 – Kaheru (i)	New Zealand	Exploration Permit	**-**	35.0
PEP 55792 – Galleon	New Zealand	Exploration Permit	**100.0**	100.0
PEP 55793 – Vulcan	New Zealand	Exploration Permit	**30.0**	30.0
PEP 55794 - Toroa	New Zealand	Exploration Permit	**30.0**	30.0
Kisaran PSC	Indonesia	Production Sharing Contract	**22.5**	22.5
Bohorok PSC	Indonesia	Production Sharing Contract	**45.0**	45.0
Palmerah Baru PSC	Indonesia	Production Sharing Contract	**36.0**	36.0
MNK Kisaran PSC	Indonesia	Production Sharing Contract	**11.3**	11.3
MNK Palmerah PSC	Indonesia	Production Sharing Contract	**15.84**	15.84
MNK Bohorok	Indonesia	Joint Study Agreement	**20.25**	20.25
Cue Energy Resources*				
WA-359-P	Australia	Exploration Permit	**100.0**	100.0
WA-360-P (ii)	Australia	Exploration Permit	**-**	37.5
WA-361-P (iii)	Australia	Exploration Permit	**-**	15.0
WA-389-P	Australia	Exploration Permit	**40.0**	40.0
WA-409-P	Australia	Exploration Permit	**100.0**	100.0
PEP 51313	New Zealand	Exploration Permit	**14.0**	14.0
PEP 51149	New Zealand	Exploration Permit	**20.0**	20.0
PEP 54865	New Zealand	Exploration Permit	**20.0**	20.0
Mahakam Hilir PSC	Indonesia	Production Sharing Contract	**100.0**	100.0
PMP 38160 – Maari	New Zealand	Mining Permit	**5.0**	5.0
Sampang PSC	Indonesia	Production Sharing Contract	**15.0**	15.0
Mahato PSC	Indonesia	Production Sharing Contract	**12.5**	12.5
Pine Mills	USA	Mining Permit	**80.0**	80.0

(i) PEP52181 (Kaheru) permit was surrendered on 6 April 2016

(ii)WA-360-P permit was relinquished on 23 October 2015

(iii) WA-361-P permit was relinquished on 30 January 2016

* represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 48.1% of the Cue interest.

14. Oil and gas interests (continued)

Share of oil and gas interests' assets and liabilities

	2016 $000	2015 $000
Current assets		
Cash and cash equivalents	**7,347**	11,536
Trade receivables (i)	**7,002**	7,034
Inventory	**2,440**	4,834
Non-current assets		
Petroleum interests (ii)	**479,641**	594,419
Total assets	**496,430**	617,823
Current liabilities		
Short-term liabilities	**7,594**	20,168
Total liabilities	**7,594**	20,168
Net assets	**488,836**	597,655
Share of oil and gas interests' Profit		
Revenue (i)	**113**	548
Expenses	**(38,584)**	(35,292)
Loss before income tax	**(38,471)**	(34,744)

(i) Trade receivables and revenues above do not include petroleum sales in relation to the Tui, Kupe and Maari fields, as the Group's share of production volumes are transferred from the Joint Venture to wholly owned subsidiaries and invoiced directly by the subsidiaries to third parties.

(ii) Petroleum interests are prior to amortisation of production assets and borrowings.

15. Evaluation and exploration assets

The Group uses the successful efforts method of accounting for oil and gas exploration costs. All general exploration and evaluation costs are expensed as incurred except the direct costs of acquiring the rights to explore, drilling exploratory wells and evaluating the results of drilling. These direct costs are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

Key judgement: recoverability of exploration and evaluation assets

Assessment of the recoverability of capitalised exploration and evaluation expenditure requires certain estimates and assumptions to be made as to future events and circumstances, particularly in relation to whether economic quantities of reserves have been discovered. Such estimates and assumptions may change as new information becomes available. If it is concluded that the carrying value of an exploration and evaluation asset is unlikely to be recovered by future development or sale, the relevant amount will be expensed in the profit and loss.

Capitalised exploration and evaluation assets, including expenditure to acquire mineral interests in oil and gas properties, related to wells that find proven reserves are classified as development assets within oil and gas assets at the time of sanctioning of the development project.

	2016 $000	2015* $000
Opening balance	**15,258**	11,843
Revaluation of USD exploration and evaluation assets	**(678)**	3,415
Closing balance at end of year	**14,580**	15,258

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

16. 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.

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.

Impairment

The carrying value is assessed for impairment each reporting date. 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 profit or loss and 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 post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are reassessed at each reporting date and the 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 previously.

	2016 $000	2015* $000
Opening balance	**289,356**	223,801
Oil and Gas asset on acquisition (i)	**-**	78,014
Expenditure capitalised	**6,843**	22,628
Impairment (ii)	**(26,605)**	(36,300)
Amortisation for the year	**(51,043)**	(38,874)
Depreciation for the year	**(30)**	(35)
Revaluation of USD production assets	**(7,482)**	37,289
Abandonment provision	**1,005**	2,833
Transfer of oil and gas asset to 'assets held for sale' (iii)	**(4,107)**	-
Closing balance at end of year	**207,937**	289,356

(i) The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of the oil and gas assets acquired as at 31 March 2015.

(ii) At 30 June 2016 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in an impairment loss of $26.6 million (30 June 2015: $36.3 million) being recognised. This relates to the Maari oil and gas asset (30 June 2015: nil). The Tui oil and gas asset was impaired by $8.7 million at 31 December 2015 but this was subsequently reversed due to a change in assumptions impacting the valuation model. Impairment is included in Asset impairment in the Consolidated Statement of Comprehensive Income.

Estimates of recoverable amounts of oil and gas assets are based on their value in use with a discount rate of 10% applied. The oil price assumptions used are based on the Bloomberg consensus mean (adjusted for the last sixty days of consensus) at balance date and gas and LPG prices on contracted terms.

(iii) The Pine Mills oil asset has been transferred to 'assets held for sale' and is now treated as a current asset – refer to note 24.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

17. Other financial assets

	2016 $000	2015 $000
Performance bonds	**1,891**	1,960
Total other financial assets	**1,891**	1,960

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.

18. Payables

	2016 $000	2015 $000
Trade payables	**4,886**	8,585
Stock over lift payable (i)	**1,015**	764
Royalties payable	**1,250**	3,554
Share of oil and gas interests' payable	**8,362**	14,970
Other payables	**1,886**	3,542
Total payables	**17,399**	31,415

(i) 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 under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in the profit or loss.

Payables denominated in currencies other than the presentation currency comprise $4.5 million of payables denominated in US dollars; NZ dollar equivalent $6.6 million. (2015: US dollars $4.1 million; NZ dollar equivalent $6.0 million) and $1.5 million of payables denominated in AU dollars; NZ dollar equivalent $0.7 million (2015: AU dollars $1.5 million; NZ dollar equivalent $1.7 million) and Rp591.5 million of payables denominated in ID rupiah; NZ dollar equivalent $0.1 million (2015: ID Rupiah Rp3.6 billion; NZ dollar equivalent $0.4 million).

19. Rehabilitation provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 1.38% from the United States. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

	2016 $000	2015 $000
Carrying amount at start of year	**78,930**	41,173
Rehabilitation provision assumed on acquisition of subsidiary (i)	**-**	12,332
Addition in provisions recognised	**1,405**	2,425
Foreign currency revaluation of provisions	**(3,034)**	20,066
Unwinding of discount	**1,705**	2,934
Carrying amount at end of year	**79,006**	78,930
Current (ii)	**1,548**	-
Non-current	**77,458**	78,930
Carrying amount at end of year	**79,006**	78,930

(i) The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of the rehabilitation provision assumed as at 31 March 2015.

(ii) The rehabilitation provision includes a current liability of $1.5 million relating to the Tui oil and gas asset.

20. Other provisions

The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of a provision assumed as at 31 March 2015. The provision relates to a dispute between Cue and another party, whereby Cue may in certain circumstances have an obligation to reimburse monies to the other party from future profits in Sampang PSC, Indonesia. A provision has been recognised for US dollar $4.5 million plus interest (NZ dollar equivalent $6.4 million), which is an estimate of the maximum amount that might eventually become payable (refer to note 28).

21. Share capital

	2016 Number of Shares 000s	2015 Number of Shares 000s	2016 $000	2015 $000
Opening balance of ordinary shares issued	**345,864**	423,817	**319,060**	377,662
Shares issued during the year	**151**	4,702	**68**	4,560
Partly paid shares issued	**1,672**	1,562	**7**	1
Shares cancelled as part of buyback program (i)	**(2,174)**	-	**(1,046)**	-
Shares cancelled as part of capital return (ii)	**-**	(84,217)	**-**	(63,163)
Closing balance of ordinary shares issued	**345,513**	345,864	**318,089**	319,060
Ordinary shares				
Fully paid shares	**336,007**	338,029	**318,002**	318,980
Partly paid shares	**9,506**	7,835	**87**	80
Total share capital	**345,513**	345,864	**318,089**	319,060

Shares issued during the year represent 0.2 million shares transferred from partly paid shares to fully paid shares (2015: 1.5 million shares). The partly paid shares are sold on market with the proceeds included in the shares issued amount. Prior year includes 3.2 million shares issued under the Dividend Reinvestment Plan.

Partly paid shares issued includes 2.3 million shares issued under the ESOP plan less 0.5 million of expired ESOP shares and 0.2 million of partly paid ESOP shares transferred to fully paid. 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 27.

All fully paid shares have equal voting rights and share equally in dividends and equity.

(i) In August 2015 the shareholders approved a share buyback program and the Group commenced a buyback in April 2016.

(ii) In February 2015 the Group cancelled 1 in every 5 ordinary shares and paid $0.75 per ordinary share cancelled. The total capital returned to ordinary shareholders was $63.2 million.

22. Reserves

(a) Reserves

	2016 $000	2015* $000
Revaluation reserve	-	(10,534)
Share based payments reserve	**115**	68
Foreign currency translation reserve	**936**	8,903
Total reserves	**1,051**	(1,563)
Movements:		
Revaluation reserve		
Opening balance	**(10,534)**	(6,882)
Transfer to retained earnings	**10,534**	(3,652)
Closing balance at end of year	-	(10,534)
Share-based payments reserve		
Opening balance	**68**	54
Share based payment expense for the year	**93**	72
Transfer of expired share based payments during the year	**(46)**	(58)
Closing balance at end of year	**115**	68
Foreign currency translation reserve		
Opening balance	**8,903**	(18,738)
Foreign currency translation differences for the year	**(7,967)**	27,641
Closing balance at end of year	**936**	8,903

(b) Nature and purpose of reserves

(i) Revaluation reserve

This reserve relates to Pan Pacific Petroleum NL investment. This investment was sold last year and losses recognised through other comprehensive income. The losses were transferred to retained earnings in this period.

(ii) 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. The reserve is recognised in other comprehensive income when the net investment is disposed of.

23. Loss per share

	2016	2015*
Loss attributable to shareholders ($000)	**(29,763)**	(14,394)
Weighted average number of ordinary shares (000)	**347,183**	401,683
Basic and diluted earnings per share (cents)	**(8.6)**	(3.5)

24. Assets held for sale

The Group owns the Pine Mills oil field in the USA which has been classified as assets held for sale following the Cue Energy Board's approval to sell the asset as it does not fit with the strategic plan of the Group.

The net asset value at 30 June 2016 is $2.1 million. The loss after tax from discontinuing operations of $3.3 million for the year all relates to the Pine Mills oil field.

25. 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, oil sales, recoverable value of oil and gas assets and capital commitments that are denominated in foreign currencies. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

The Group may enter into foreign currency hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. To manage its oil price risks the Group utilises option call contracts, with a total notional value of $1.4 million at balance date. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

(iii) Concentrations of interest rate exposure

The Group has no external bank debt and therefore its main interest rate risk arises from short-term deposits held.

(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 counter parties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults. Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short-term cash deposits, trade receivables and short-term funding arrangements. The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings, with funds required to be invested with a range of separate counter parties. The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

The Group may be exposed to financial risk if one or more of their joint venture partners is unable to meet their obligation in relation to the abandonment costs for jointly owned oil and gas assets. Under the joint venture operating agreement if one or more partners fails to meet their financial obligation, the other partners may become proportionately liable for their share of the financial obligations but would have contractual rights of recovery against the defaulting party.

(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 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:

30 June 2016	**6 months or less $000**	**6-12 months $000**	**1-2 years $000**	**2-5 years $000**	**More than 5 years $000**	**Contractual cash flows $000**
Payables	**17,203**	**-**	**-**	**-**	**-**	**17,203**
Tax liabilities	**3,175**	**-**	**-**	**-**	**-**	**3,175**
Total non-derivative liabilities	**20,378**	**-**	**-**	**-**	**-**	**20,378**

30 June 2015	**6 months or less $000**	**6-12 months $000**	**1-2 years $000**	**2-5 years $000**	**More than 5 years $000**	**Contractual cash flows $000**
Payables	29,982	-	-	-	-	29,982
Tax liabilities	3,625	-	-	-	-	3,625
Total non-derivative liabilities	33,607	-	-	-	-	33,607

At 30 June 2016 the Group had no derivatives to settle (2015: $Nil).

25. 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 Group 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, commodity prices and currency risks. The Group's exposure to these risks is described in note 25(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 30 June 2016 would be to decrease the Group profit before tax by $2.4 million and decrease the foreign currency translation reserve in equity by $1.8 million (2015: $1.5 million decrease on profit before tax and $2.3 million decrease in the foreign currency translation reserve).
- As at 30 June 2016 a US dollars $5 movement in oil prices (holding all other things constant) would alter the value of the option asset/liability by approximately $0.15 million (30 June 2015: Nil).
- The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by $1.0 million (2015: $0.9 million increase), based on maintaining current cash balances.

(f) Recognised assets and liabilities

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

(g) Financial instruments by category

At 30 June 2016	Amortised cost $000	Total at carrying value $000
Assets		
Cash and cash equivalents	**96,811**	**96,811**
Trade and other receivables	**12,589**	**12,589**
Total assets	**109,400**	**109,400**
Liabilities		
Payables	**17,203**	**17,203**
Borrowings	**1,139**	**1,139**
Total liabilities	**18,342**	**18,342**
At 30 June 2015		
Assets		
Cash and cash equivalents	83,659	83,659
Trade and other receivables	28,177	28,177
Total assets	111,836	111,836
Liabilities		
Payables	29,982	29,982
Borrowings	1,000	1,000
Total liabilities	30,982	30,982

The fair value of financial instruments is equivalent to their carrying value.

26. Related party transactions

Related parties of the Group include those entities identified in notes 13 and 14 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms. There have been no material transactions with related parties during the year.

Certain directors have relevant interests in a number of companies with which the Group has transactions in the normal course of business. A number of directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered into as part of the ordinary business.

* The Dividend Reinvestment Plan will not apply to future dividends until advised otherwise. Full Terms and Conditions of the Plan and the Participation Notice are available on the company's website.

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group. Cue management personnel have been included for the year ended 30 June 2016 and for the three-month period to 30 June 2015.

	2016 $000	2015 $000
Short term employee benefits	**6,610**	4,447
Share based payments	**27**	41
Termination benefits	**107**	-
Total	**6,744**	4,488

27. Share-based payments

The Group operates an Employee Share Ownership Plan (ESOP) which is open to nominated employees. Under the plan there are currently 9.5 million partly paid shares for which employees have paid $0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2016 $0.09 million was expensed through the Consolidated Statement of Comprehensive Income. A total of 2.3 million shares were awarded, 0.2 million shares vested during the year at an average cost of $0.45 per share, expired shares totalling 0.5 million were sold and 0.1 million shares were forfeited.

28. 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.

	2016 $000	2015 $000
Within one year	**1,032**	932
Later than one year and not later than five years	**446**	1,266
Total operating leases and commitments	**1,478**	2,198

During the year ended 30 June 2016 $0.7 million was recognised as an expense in profit or loss in respect of operating leases (2015: $0.7 million).

The Group 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 2017 with optional one-year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for period to 31 December 2017 is currently estimated to be US dollars $11.5 million (2015: US dollars $13.7 million).

(c) Contingent assets and liabilities

As a result of an economic project arrangement in the Jeruk field within the Sampang PSC, Indonesia, Cue may in certain circumstances have an obligation to reimburse certain monies spent by the incoming party from future profit within the Sampang PSC. There is a dispute between Cue and the incoming party as to the quantum of monies that they may be entitled to claim by way of such reimbursement and when any such reimbursement would be payable. The Company is of the view that any amount which might eventually become payable would not be likely to exceed the amount of US dollars $4.5 million which has been provided for in the accounts. Claims made by the incoming party are yet to be settled and hence there is still significant judgement and estimation in relation to these legal claims.

29. Subsequent events

There have been no significant subsequent events since balance date.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 3.

Independent Auditor's Report

KPMG

To the shareholders of New Zealand Oil & Gas Limited

We have audited the accompanying consolidated financial statements of New Zealand Oil & Gas Limited and its subsidiaries ("the group") on pages 15 – 39. The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the consolidated 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.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company's shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group's preparation and fair presentation of the consolidated financial statements 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 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 consolidated 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 group in relation to taxation services. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 15 – 39 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of New Zealand Oil & Gas Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

23 August 2016
Wellington

Corporate Governance Statement

New Zealand Oil & Gas Limited (the Company) is a limited liability company registered under the New Zealand Companies Act 1993. The Company is listed and its shares quoted on the Main Board equity security market operated by NZX Limited (NZX) under the code "NZO". This statement sets out the main corporate governance practices adopted by the Company. It is current to 30 June 2016 unless a more recent date is expressly stated, and has been approved by the board. Unless otherwise stated the Company's governance practices are considered to comply with the corporate governance guidelines issued by the NZX.

Board of Directors

The board is responsible for the overall corporate governance of the Company including strategic direction, determination of policy, and the approval of significant contracts, capital and operating costs, financial arrangements and investments. In addition to statutory and constitutional requirements, the board has a formal charter that sets out its functions and structure. The Board Charter is available at

www.nzog.com/investor-information/corporate-governance

The number of directors is specified in the constitution as a minimum of three and up to a maximum of seven. At least two directors must be ordinarily resident in New Zealand. Each year one-third of the directors, must retire by rotation. If eligible, each retiring director may offer themselves for re-election. Details of current directors are set out in the table below:

Director	Appointed	Position	Experience
Mr R J Finlay B Com FCA, CFInstD	February 2012	Chairman (Ind)	BCom, University of Otago. 30 years experience in financial services industry, 20 of which specialising in the global natural resource sectors. Other Directorships: Radio New Zealand, Rural Equities Ltd, Mundane Asset Management, Moeraki Ltd and New Zealand Thoroughbred Racing. Fellow of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors.
Dr R Archer PhD, MS, BE	November 2014	(Ind)	BE in Engineering Science, University of Auckland, PhD in Petroleum Engineering and PhD minor in Geological and Environmental Science, Stanford University. Professor at the University of Auckland, and head of its Department of Engineering Science. Runs an international reservoir engineering consulting practice. Other Directorships: University of Auckland Geothermal Institute.
Mr R Ritchie BSc	October 2013	(Ind)	BSc, University of Tulsa. 38 years of experience as a line manager and a Health, Safety, Security and Environment executive in the oil and gas industry – including being the Corporate Senior Vice President of HSSE at OMV based in Vienna. Other Directorships: Sparc (Aust) Pty Ltd. Membership: Society of Petroleum Engineers.

Mr D Saville B Com (Hons) BSc (Hons) FCA FAICD	November 2014	(Non-Ind)	Chartered Accountant with extensive experience in corporate finance and who has held directorships in the utility, water, airport & technology sectors. He was a founding director of Infratil Limited and is currently a director of listed companies, Cue Energy Resources Limited, Touchcorp Limited, Somers Limited and West Hamilton Holdings Limited. In addition, he is a director of HRL Morrison & Co, ICM Limited, Vix Technology & Zeta Energy Pte Limited. He is a Fellow of Chartered Accountants Australia and New Zealand and of the Australian Institute of Company Directors.
Mr M Tume BBS	February 2012	(Ind)	BBS and Dip Banking Studies, Massey University. Hunter Fellowship recipient, Victoria University. 25+ years infrastructure and finance: senior roles in investment banking, capital markets, asset and liability management, and risk control. Other Directorships: New Zealand Refining Company, Chairman of Infratil Limited, RA 2014 Pty Limited, Chairman RA (Holdings) 2014 Pty Limited, Rearden Capital Pty Limited and Chairman Te Atiawa Iwi Holdings Management Limited.

Independent Directors

A majority of the board are independent directors. The board has determined in terms of the NZX Listing Rules that as at 30 June 2016, Mr R J Finlay, Dr R Archer, Mr R Ritchie and Mr M Tume are independent directors. Mr D Saville is not an independent director because of his association with Zeta Energy Pty Ltd, Bermuda Commercial Bank Ltd and UIL Ltd which together are a substantial shareholder in New Zealand Oil & Gas Ltd.

Board Proceedings

The board meets on a formal scheduled basis every two months, and holds other meetings as required. The chairman and the chief executive establish the agenda for each board meeting. Every month the board doesn't meet, the chief executive prepares an operations report, which includes: a health, safety and environment report; key financials report; and a production update report. A report is prepared for each meeting that, in addition, includes: updates on exploration activities; summaries of new business opportunities; an update on human resources and facilities; a stakeholder engagement update and other reports as relevant. Key strategic issues and opportunities are also presented to the board by management as part of each meeting.

To ensure that independent judgement is achieved and maintained in respect of its decision making, the board has adopted a number of processes which includes:

- any director may, with the prior consent of the chairman of the Audit Committee (or in the case of the chairman of the Audit Committee's absence, the prior consent of the chairman of the board), obtain independent advice at the Company's expense where the director considers it necessary to carry out their duties and responsibilities as a director. Such consent shall not unreasonably be withheld; and
- directors must comply with the Directors' Interests Policy, which addresses disclosable interests, conflicts of interest, director information obligations, board review and determination obligations, and the rules for participation in board deliberations in the event of a conflict of interest.

The Company has also entered into Director Disclosure Agreements with each director of the board which addresses the directors' obligations to advise the Company of the directors' relevant interests in securities and contracts.

Board Committees

The board has three formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, the Nomination and Remuneration Committee and the Health, Safety, Security, Environment (HSSE), Sustainability and Operational Risk Committee. Each committee has a written charter setting out its roles and responsibilities, which is available from the Company's website at:

www.nzog.com/investor-information/corporate-governance

The Audit Committee, together with the chief executive, is responsible to the board for overseeing the financial and internal controls, financial reporting and audit practices of the Company. The chairman of the Audit Committee also oversees and authorises any trading in securities by directors, employees or contractors. There are restrictions on trading outlined in the Securities Trading Policy and Guidelines for Directors and the Securities Trading Policy and Guidelines for Employees and Dedicated Contractors. Meetings of the Audit Committee are held at least twice a year. The chairman of the board, directors, the chief executive and other employees may be invited by the Audit Committee to attend these meetings. The Audit Committee can meet with the external auditors and senior management in separate sessions. As outlined in the Audit Committee Charter, there is an annual process to consider engagement of auditors, having regard to the auditors' independence and policies for rotation of partners.

As at 30 June 2016, the members of the Audit Committee were Mr Tume (Chairman), Mr Finlay and Mr Saville. The Committee is to be composed of three non-executive directors with a majority being independent. The chairman of the board is not to also be the chairman of the Audit Committee. At least one member is to have an accounting or financial background. The Committee meets these requirements.

The Nomination and Remuneration Committee is responsible to the board for approving the remuneration packages and performance criteria of the chief executive, ensuring employees are appropriately compensated and motivated, and examining the director selection and appointment practices of the Company and the board succession plans. It also reviews and provides recommendations to the board on achieving and implementing the New Zealand Oil & Gas Diversity Policy and sets measurable objectives. Together with the chief executive, it is responsible for reviewing appointees to the management team; allocations of partly paid shares under the employee share ownership plan (ESOP); and recommending to the board amendments to ESOP rules.

The Committee composition is to be three non-executive directors, with a majority being independent. The members of the Nomination and Remuneration Committee as at 30 June 2016 were Dr Archer (Chair), Mr Finlay and Mr Ritchie (all of whom are independent directors). The Committee is required to meet at least twice a year in June and in December and may invite management to participate.

As outlined in the Board Charter, the full board undertakes the responsibility for the nomination and appointment of directors. The board invites director nominations from security holders on an annual basis and the board undertakes an annual review of board membership to ensure its composition and the skills and experience of its members meet the Company's ongoing requirements.

The HSSE, Sustainability and Operational Risk Committee's role is to advise and support the board in meeting its responsibilities in relation to health, safety, security, environment, sustainability, operational risk and community engagement matters arising out of the activities and operations of the Group. It is to be comprised of at least three board members, the chairman is appointed by the board and is to be a non-executive director, although interim arrangements may differ from time to time.

As at 30 June 2016, the members of the HSSE, Sustainability and Operational Risk Committee were Mr Ritchie (Chairman), Mr Finlay and Dr Archer (the Committee therefore has majority of independent directors). The Committee is to meet at least four times a year and may call upon, and have access to, resources for additional information or advice including external consultants.

Board & Committee Meetings 1 July 2015 to 30 June 2016

Director	Board	Audit Committee	Nomination & Remuneration Committee	HSSE Sustainability and Operational Risk Committee
Rodger Finlay	8/8	3/3	3/3	3/4
Dr Rosalind Archer	8/8	-	3/3	3/4
Duncan Saville	7/8	3/3	-	-
Rod Ritchie	7/8	-	3/3	3/4
Mark Tume	8/8	3/3	-	-
Peter Griffiths*	4/4	-	-	2/2
Andrew Knight*	2/2	1/1	1/1	1/1

* Mr Griffiths and Mr Knight resigned as directors as at 16 February 2016 and 5 October 2015 respectively.

Responsibilities of the Board

The board is accountable for the performance of the Company. The specific responsibilities of the board include:

- approving corporate strategy and performance objectives;
- establishing policies appropriate for the Company;
- oversight of the Company, including its control and accountability systems;
- approving major investments and monitoring the return of those investments;
- the overall risk management and control framework for the Company and ensuring appropriate risk management systems are established and applied;
- appointing, removing and evaluating the performance of the chief executive;
- reviewing the performance of senior management;
- appointing and removing the company secretary;
- setting broad remuneration policy;
- reviewing implementation of strategy and ensuring appropriate resources are available;
- nominating and appointing new directors to the board;
- evaluating the performance of the board, committees of the board, and individual directors;
- reviewing and ratifying systems of risk management, internal compliance and control, codes of conduct, and legal compliance;
- approving and monitoring the progress of any major capital expenditure, capital management and acquisitions and divestitures;
- reviewing and ratifying HSSE Sustainability and Operational Risk policies, the HSSE Sustainability and Operational Risk Management System and monitoring its implementation and performance;
- approving and monitoring financial and other reporting;
- ensuring that the Company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the Company's prospects;
- overall corporate governance of the consolidated entity;
- determining the key messages that the company wishes to convey to the market from time to time; and
- monitoring information commitments and continuous disclosure obligations.

Delegation to Management

While the board has overall and final responsibility for the business of the Company, it has delegated substantial responsibility for the conduct and administration of the Company's business and policy implementation to the chief executive and his management team. Board approved policies and procedures are in place to set parameters for the delegated responsibilities, including:

- Health and Safety Policy;
- Environment Policy;
- Code of Business Conduct and Ethics;
- Communications, Market and Social Media Disclosure Policy;
- Securities Trading Policies for Directors, Employees and Dedicated Contractors;
- Directors' Interests Policy;
- Protected Disclosure (Whistleblower) Policy;

- Diversity Policy;
- Delegated Authorities Manual;
- Remuneration and Performance Appraisal Policy;
- Treasury Policy;
- ETS Obligations and Carbon Liability: Transactions Policy;
- Email and Internet Use Policy;
- Anti-Harassment Policy; and
- Drugs and Alcohol Policy.

These policies are reviewed on a regular basis. The board may establish other policies and practices to ensure it fulfils its functions.

Health and Safety Policy

The Company is fully committed to the provision of a safe and healthy work environment. The Company aspires to a "no one gets hurt" plus "no incidents" standard under its Health and Safety Policy.

All employees, contractors and joint venture parties engaged in activities under the Company's operational control are responsible for the application of the policy. All employees are responsible for taking all practicable steps to avoid harm being caused to themselves or to others in the work place. They must report any potentially hazardous situations, maintain good housekeeping in all areas and comply with safe work practices and procedures. The Company's managers are responsible for promoting the policy in non-operated joint ventures.

The full Health and Safety Policy is available on the Company's website at www.nzog.com/investor-information/corporate-governance

Environment Policy

The Company values the environment and is committed to responsible management practices that minimise adverse environmental impacts arising from our activities, using soundly based science as the basis for all of our environmental decisions.

Responsibility for the application of this policy applies to all employees, contractors and joint venturers engaged in activities under the Company's operational control. The Company's managers are responsible for promoting the policy in non-operated joint ventures.

The full Environment Policy is available on the Company's website at www.nzog.com/investor-information/corporate-governance

Code of Business Conduct and Ethics

The Company's Code of Business Conduct and Ethics sets out the values and ethics expected of the Company's directors, management, employees and dedicated contractors. The Company strives to create a strong culture of honesty, integrity, loyalty, fairness, forthrightness and ethical behaviour.

Company representatives are required to:

- act with high standards of honesty, integrity, fairness, and equity in all aspects of their involvement with the Company;
- comply fully with the content and spirit of all laws and regulations which govern the operations of the Company, its business environment, and its employment practices;
- not knowingly participate in illegal or unethical activity;
- actively promote compliance with laws, rules, regulations, and the Company's Code of Business Conduct and Ethics; and
- not do anything which would be likely to negatively affect the Company's reputation.

The Code addresses in detail issues such as:

- conflicts of interest and corporate opportunities;
- protection and proper use of Company assets;
- confidential and proprietary information;
- intellectual property;
- competition and fair dealing;
- business entertainment and gifts;
- anti-bribery and corruption;
- cash koha;
- insider trading or tipping, and
- reporting of Code violations.

The Code of Business Conduct and Ethics is available on the Company's website at www.nzog.com/investor-information/corporate-governance

Communications, Market Disclosure and Social Media Policy

The Company is committed to maintaining a high standard of communication and the provision of timely, full and accurate information to shareholders and other stakeholders. The Company is committed to compliance at all times with its obligations, as an NZX listed Company, to provide continuous disclosure to the market and strives to make those disclosures in a way that is clear, concise and effective. The Communications, Market Disclosure and Social Media Policy's purpose is to reinforce the Company's commitment to the continuous disclosure obligations imposed by law and stock exchange rules, to describe the processes to ensure compliance, to outline the Company's general communications approach aimed at ensuring timely and accurate information is provided to shareholders, market participants and market observers and provide ground rules for the use of social media.

The Policy also provides for the Company encouraging Shareholder participation at the Company's annual meeting. It does so by inviting questions, promoting dialogue and providing a live webcast of the meeting to enable participation by shareholders who cannot be physically present. Shareholders have the opportunity to submit questions and materials are posted on the Company's website.

The board is provided with a regular report by management, which monitors and evaluates media reporting and investor sentiment relating to the Company and its management and directors.

The board is responsible for, by way of example, monitoring commitments and continuous disclosure obligations and initiating action as warranted to ensure reporting is fair and reasonable. The Audit Committee is responsible for monitoring compliance with corporate governance guidelines of the NZX. The chief executive is accountable for the release of information.

The Communications, Market Disclosure and Social Media Policy is available on the company's website at www.nzog.com/investor-information/corporate-governance

Shareholders and interested parties can subscribe via the website to receive notice of the Company's market announcements by email. The Company issues; corporate profile, sustainability and social responsibility, annual, interim, and quarterly reports. Security holders can elect to receive the corporate profile, sustainability and social responsibility, annual and interim report in paper or electronic format. Security holders can elect to receive quarterly reports in electronic format. These documents are also posted on the Company's website in a clearly marked Company Reports section which is located within the NZOG Today section.

Securities Trading Policies

The Company's Securities Trading Policies set out procedures as to when and how an employee, dedicated contractor or director can deal in company securities. These policies are consistent with the Financial Markets Conduct Act 2013 and its insider trading procedures, and comply with the NZX listing rules. The board ensures that these policies are up to date and compliant at all times with any changes to the law and to NZX listing rules. The Securities Trading Policies are available on the company's website at www.nzog.com/investor-information/corporate-governance

Diversity Policy

Through its Diversity Policy the company is committed to an inclusive workplace that embraces diversity. The Company values, respects and leverages the unique contributions of people with diverse backgrounds, experiences and perspectives. Diversity includes, but is not limited to, gender, age, disability, ethnicity, marital or family status, religion, sexual orientation, gender identity and cultural background. The board monitors the scope and currency of the Diversity Policy.

The policy provides that the Company will recruit from a diverse pool of candidates, who will be considered with no conscious or unconscious bias that may discriminate against certain candidates. It takes into account the domestic responsibilities of employees and adopts flexible work practices.

The board establishes measurable objectives for achieving gender diversity, may establish measurable objectives for other aspects of diversity, and will assess annually both the set objectives and the progress in achieving them. On an annual basis, the Nomination and Remuneration Committee is to make an assessment of success in achieving and implementing the policy and the set objectives and report to the board with recommendations as appropriate.

With respect to the provision of the Diversity Policy, the board has determined that the Company has complied with the policy. The Diversity Policy is available on the Company's website at www.nzog.com/investor-information/corporate-governance

The following table shows the number of men and women across the organisation (excluding contractors) as at 30 June 2016, and compares that to numbers as at 30 June 2015:

30 June 2016	Total	Number of Men	%	Number of Women	%
Board	5	4	80%	1	20%
Senior Executives*	7	7	100%	0	0
Other Employees	14	6	43%	8	57%

30 June 2015	Total	Number of Men	%	Number of Women	%
Board	7	6	86%	1	14%
Senior Executives*	6	6	100%	0	0
Other Employees	20	10	50%	10	50%

* Senior Executives comprise the chief executive, and managers with executive management roles who report directly to the chief executive. The chief executive reports directly to the board.

Directors' Interests Policy

The directors are required to recognise that the possibility of conflict of interest exists, and are expected to declare potential conflict of interest situations to the board and manage conflicts of interest in accordance with the Directors' Interests Policy, the Code of Business Conduct and Ethics, and the Company's Constitution. The Company maintains an Interests Register in compliance with the Companies Act 1993, which records particulars of certain transactions and matters involving directors. The Directors' Interests Policy, are available on the company's website at www.nzog.com/investor-information/corporate-governance

Protected Disclosures (Whistleblower) Policy

The Company has a Protected Disclosures (Whistleblower) Policy that provides a procedure for company employees and contractors to raise concerns or make disclosures about what they observe happening at work. The purpose is to facilitate disclosure and investigation of serious wrongdoing. It provides a mechanism for concerns being raised and dealt with at an early stage and in an appropriate manner and that the person making the report is protected from any adverse consequences where it is made in good faith. The Protected Disclosures (Whistleblower) Policy is available on the company's website at www.nzog.com/investor-information/corporate-governance

Delegated Authorities Manual

The board has established formal limits of authority to provide clarity to the chief executive and management so that they are in a position to carry out the business of the Company in an efficient and effective manner within the parameters of proper corporate governance. The Delegated Authorities Manual set limits to financial commitments and other decision-making, and is monitored by the board through the audit function.

Anti-Harassment Policy

The Anti-Harassment Policy provides that the Company employees and contractors have a responsibility to use best endeavours to avoid conducting themselves in a manner that may be construed as harassment (which includes bullying) and if they feel they are being harassed report that harassment to their manager or General Counsel. The Policy sets out some options for dealing with harassment.

Remuneration and Performance Appraisal Policy

The Company aims to attract, retain and motivate professional staff capable of achieving the goals of the Company. The Company wants to encourage and reward its staff fairly and appropriately within the market to reflect performance and contribution. The Remuneration Policy provides a process that is undertaken to assess the competitiveness of remuneration level.

At the 2008 Company Annual Meeting, shareholders approved a resolution that director's fees be set at a maximum of $600,000 per annum, being the combined total for all non-executive directors. There has been no increase in the fee level since 2008 and as at 1 March 2016 the board and directors volunteered a reduction in their fees. Directors do not receive any performance based remuneration.

The Nomination and Remuneration Committee is responsible for receiving and making recommendations on remuneration policies for the chief executive and senior executives based on assessment of relevant market conditions and linking remuneration to the Company's financial and operational performance.

Executive remuneration may comprise salary, short-term incentive payments and share participation in accordance with the Company's Employee Share Ownership Plan (as approved by shareholders).

Drugs and Alcohol Policy

The Drug and Alcohol Policy provides that any person impaired by the use of alcohol, controlled substances or drugs is prohibited from entering the Company's facilities, engaging in Company business or operating Company equipment. Alcohol is not to be consumed under any circumstances at any Company sites.

Recognising and Managing Risk

The Company has a risk management system framework, which outlines the Company's approach to risk management. It provides a framework on how to apply consistent and comprehensive risk management practices across all functional areas of the Company's business.*

A central Company risk register, which considers the risks, reviews the controls, assigns ownership of a risk and tracks treatment plans, is maintained. An overview of key risks is included in the monthly Operations Report provided to directors. Risk assurance is provided through a prioritised programme of audits and internal review.

The board's accountabilities include overseeing the effectiveness of the Risk Management System framework, monitoring compliance and approving polices and systems for the ongoing identification and management of risks. The board's responsibilities include approving the Company's risk capacity and appetite, reviewing material risks and reviewing the risk register. The board allocates oversight of risk management in relation to health, safety and environment and company operations to the HSSE Sustainability and Operational Risk Committee and oversight in relation to accounting standards and principles, financial statement compliance and reliability and the audit process to the Audit Committee.

Responsibility for identifying, documenting and managing risks and opportunities is delegated to the appropriate level of management. The chief executive is responsible for such things as integrating risk management into core business processes, managing the Company's corporate strategic risks and opportunities and regularly reviewing the Company's risk profile. The Vice President & General Manager, Exploration and Production has ultimate responsibility to the board for design, development and improvement of the risk management framework system and maintains the Company's risk register.*

* The Risk Management System Framework is available in the corporate governance section of the Company's website, www.nzog.com

The Company does not have an internal audit function. The process employed for evaluating and improving the effectiveness of risk management and internal control processes are:

- risks are formally reviewed by risk owners;
- management regularly reviews the risk register to ensure adherence and continuous improvement;
- the HSSE Sustainability and Operational Risk Committee regularly reviews the risk register, with a particular emphasis on reducing key risks to as low as reasonably practicable;
- for specific operational activities (including seismic acquisition campaigns), the board reviews the intended operational activity against activities related to elements of the Company's HSSE management framework to ensure a compliant work programme, achieving desired objectives safely; and
- after action reviews (AAR) of an operational phase of a project, are undertaken by the HSSE Advisor and project team, to identify improvement in control processes. The AAR is then reviewed by the HSSE Sustainability and Operational Risk Committee.

The HSSE Sustainability and Operational Risk Committee reviews specific risks at each meeting of the committee, and at least annually, the risk register and framework document to satisfy itself that the system continues to be sound. Such a review was undertaken by the HSSE Sustainability and Operational Risk Committee during the reporting period.*

* The Board HSSE Sustainability and Operational Risk Committee Charter 2016, is available on the Company's website at http://www.nzog.com/investor-information/corporate-governance/

Corporate Governance Best Practice Codes

The Company's compliance with the Corporate Governance Best Practice is actively monitored. This includes assessing compliance with the NZX Listing Rules and Corporate Governance Best Practice Code (Appendix 16) (NZX code). The Company is compliant with these rules and guidelines except as otherwise noted below:

- In relation to code 2.7 of the NZX Code, the Company does not encourage its directors to take part of their remuneration by way of equity.
- Code 3.11 of the NZX Code recommends that a nominations committee recommend director appointments to the board. The Company has established a nominations committee, which among other roles includes examining the director selection and appointment practices of the Company and the board succession plans, but not recommending appointments to the board. The board as a whole undertakes responsibility for the recruitment and appointment of directors.

Shareholder Information

Stock Exchange Listing

The company's securities are listed on the Main Board equity security market operated by NZX Limited.

Securities On Issue

As at 24 August 2016 New Zealand Oil & Gas Limited had the following securities:

Listed Ordinary Shares:	Unlisted Partly Paid Shares:
336,006,709	9,506,000
12,157 holders	25 holders

Top 20 Shareholders

Top 20 registered holders of Listed Ordinary Shares as at 24 August 2016

	Full Name	Shares	% of issued Capital
1	JPMorgan Chase Bank NA NZ Branch - NZCSD	55,648,418	16.56
2	Custodial Services Limited	16,909,191	5.03
3	Citibank Nominees (New Zealand) Limited - NZCSD	14,000,974	4.16
4	New Zealand Superannuation Fund Nominees Limited -NZCSD	11,701,663	3.48
5	Resource Nominees Limited	9,491,286	2.82
6	Leveraged Equities Finance Limited	8,971,860	2.67
7	HSBC Nominees (New Zealand) Limited- NZCSD	8,832,484	2.62
8	National Nominees New Zealand Limited - NZCSD	7,863,854	2.34
9	Sik-on Chow	4,280,000	1.27
10	BNP Paribas Nominees (NZ) Limited - NZCSD	3,972,243	1.18
11	FNZ Custodians Limited	3,801,875	1.13
12	Radford Associates PTY Limited	2,618,389	0.77
13	Riuo Hauraki Limited	2,430,000	0.72
14	HSBC Nominees (New Zealand) Limited A/C State Street -NZCSD	2,298,260	0.68
15	NZPT Custodians (Grosvenor) Limited	2,257,154	0.67
16	Public Trust Forte Nominees Limited - NZCSD	2,179,298	0.64
17	Ronald James Woodrow	1,976,119	0.58
18	Forsyth Barr Custodians Limited	1,949,565	0.58
19	ASB Nominees Limited	1,790,000	0.53
20	Accident Compensation Corporation - NZCSD	1,725,000	0.51

In the above table the holdings of New Zealand Central Securities Depository Limited have been reallocated to the applicable holder.

Substantial Shareholders

Substantial Product Holding Notices are received pursuant to the Financial Markets Conduct Act 2013. Shareholders are required to disclose their holding to the issuer and the issuer's registered exchanges when:

- they have a substantial holding (5% of more of the listed voting securities);
- subsequent movements of 1% or more in a substantial holding from prior notification;
- any change is made in the nature of any relevant interest in the substantial holding; and
- they cease to have a substantial holding.

According to the company's records and Substantial Product Holding Notices previously released to NZX, as at 30 June 2016, the only substantial product holder in the company was Zeta Energy Pte Ltd with a relevant interest in 67,605,896 Listed Ordinary Shares or 20.12% of the total number of Listed Ordinary Shares (JPMorgan Chase Bank NA NZ Branch and Custodial Services Limited are above 5% but hold the shares on behalf of a number of beneficial shareholders). As at 30 June 2016, the company had 336,006,709 Listed Ordinary Shares on issue.

Distribution of Security Holders

As at 24 August 2016

Number of Shares	Holders of Listed Ordinary Shares	Holder Quantity of listed Ordinary Shares %	Holders of Unlisted Partly Paid Shares	Holding Quantity of Unlisted Partly Paid Shares %
1 to 99	193	1.59		
100 to 199	75	0.62		
200 to 499	979	8.05		
500 to 999	1,696	13.95		
1,000 to 1,999	1,909	15.7		
2,000 to 4,999	2,662	21.9		
5,000 to 9,999	1,793	14.75		
10,000 to 49,999	2,251	18.52	4	2%
50,000 to 99,999	300	2.47	7	6%
100,000 to 499,999	242	1.99	12	29%
500,000 to 999,999	26	0.21	5	32%
1,000,000 and above	31	0.25	1	38%
Total	**12,157**	**100**	**29**	**100%**

* On 24 August 2016 there were 1,247 holders with less than a minimum holding of shares as determined by the NZX (under 500 shares).

Trading Statistics

For the 12 months ended 30 June 2016	High	Low	Volume
NZX (Trading Code NZO)	0.56	0.39	58,153,500
ASX (Trading Code NZO)*	0.58	0.32	5,028,449

*NZO delisted from the ASX on 31 May 2016.

Share Buy-backs

On 30 August 2016 the company announced its intention to buy back up to 40 million shares through a tender offer. The tender offer is part of a programme in place to buy back up to 64 million shares under section 63 of the Companies Act and pursuant to the approval of shareholders received at the special meeting of shareholders held on 28 August 2015.

Dividend Payments and Reinvestment Plan Dividend Payments

Dividend Payments

No dividend payments were made during the financial year.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan will not apply to future dividends until advised otherwise. Full Terms and Conditions of the Plan and the Participation Notice are available on the company's website.

Direct Crediting of Dividends Payments

To minimise the risk of fraud and misplacement of dividend cheques shareholders are strongly recommended to have all payments made by way of direct credit to their nominated New Zealand or Australian bank account. This can be done by simply giving the share registry written notice.

Share Registry

Details of the company's share registry are given in the Corporate Directory on the inside back cover of this report. Shareholders with enquiries about share transactions, changes of address or dividend payments should contact the share registry.

New Zealand Oil & Gas applied to ASX Limited (ASX) for removal from the official list of ASX on 1 April 2016, and on 21 April 2016, the company received approval from the ASX for its delisting from the official list of the Australian exchange. The stock was removed from the ASX on close of trading on 31 May 2016. The company continues to be listed on the Main Board equity security market operated by NZX Limited (NZX).

Directors' Remuneration

The total remuneration and other benefits to directors for services in all capacities during the year ended 30 June 2016 was:

Mr R J Finlay	93,407
Dr R Archer	69,148
Mr R Ritchie	76,648
Mr D Saville	66,648
Mr M Tume	76,648
Mr A T N Knight*	272,979
Mr P W Griffiths*	100,220

* Mr A T N Knight - includes remuneration received as chief executive, up to 5 October 2015 at which date Mr Knight resigned as director.

* Mr Griffiths resigned as a director as at 16 February 2016. Mr Griffiths received remuneration up to this date.

Directors' Securities Interests

The interests of directors in securities of the company at 30 June 2016 were:

	Direct Interest	Indirect Interest
Mr R J Finlay	-	1,672,503*
Mr D Saville	-	67,605,896**

* Mr Finlay holds 1,672,503 ordinary shares through R G H Holdings Limited for which Mr Finlay is a sole director and shareholder.

** 54,207,553 ordinary shares are held by Zeta Energy Pte Ltd (a company Mr Saville is a director of), 5,028,500 ordinary shares held by Bermuda Commercial Bank Ltd and 6,915,152 ordinary shares held by UIL Limited. Mr Saville has a material indirect interest in the shares held by these companies though an indirect shareholding in UIL Limited (which is the indirect controlling shareholder of Zeta Energy Pte Ltd) and Somers Ltd (which owns 100% of Bermuda Commercial Bank Ltd). Mr Saville is also the shareholder and a director of ICM Ltd which is the investment adviser to or the portfolio manager of Zeta Energy Pte Ltd, Bermuda Commercial Bank Ltd and UIL Limited. Zeta Energy Pte Ltd holds approximately 50.4% in Pan Pacific Petroleum NL. Zeta Energy Pte Ltd and Pan Pacific Petroleum NL are related body corporates. Pan Pacific Petroleum NL is the holder of 1,454,691 ordinary shares in New Zealand Oil & Gas.

Directors' Interests Register

Directors' interests recorded in the Interests Register of the company as at 30 June 2016 are detailed below. Notices given or adjusted during the financial year ended 30 June 2016 are marked with an asterisk (*). Each such director will be regarded as interested in all transactions between the company and the disclosed entity.

Mr R J Finlay	
Mundane Asset Management	Chairman
Moeraki Ltd	Director
Rural Equities Ltd	Deputy Chairman (Chair of Audit Committee) and Shareholder
RGH Holdings Ltd	Sole Director and Shareholder
Radio New Zealand Board	Governor
Dr R Archer*	
Capricorn Solutions Ltd*	Director
Mr R Ritchie	
NIL	

Mr D Saville*[1]	
Zeta Energy Pte Ltd*~	Director
ICM Ltd*°	Director and Shareholder
HRL Morrison & Co Ltd	Director and Shareholder
Infratil Ltd (and related subsidiaries) *^	Director
Touchcorp Ltd	Director
Somers Ltd	Director
West Hamilton Ltd	Director
Mr M Tume	
Yeo Family Trustee Ltd	Director
Long Board Ltd	Director
Welltest Ltd	Director
New Zealand Refining Company Ltd	Director
Koau Capital Partners Ltd	Director
Maori Trustee Advisory Board	Member of the Advisory Board
Infratil Ltd (and related subsidiaries) *^	Chairman and Shareholder
RA 2014 Pty Ltd*	Director
RA (Holdings) 2014 Pty Ltd*	Chairman
Rearden Capital Pty Ltd	Director
Te Atiawa Iwi Holdings Management Limited	Chairman

^ Infratil Limited holds 51% of Trust Power Limited.

~ Zeta Energy Pte holds approximately 50.4% of Pan Pacific Petroleum and an interest in Seacrest L.P.

° ICM is the fund manager/investment adviser to Zeta Energy, UIL ltd and Bermuda Commercial Bank.

[1] Subsequent to year-end, Mr Saville was appointed to the board of Cue Energy Resources Limited.

Employees Remuneration

During the year ended 30 June 2016, 23 New Zealand Oil & Gas employees (excluding Cue Energy employees) received individual remuneration over $100,000.*

$100001 - $110000	1
$120001 - $130000	2
$140001 - $150000	2
$170001 - $180000	3
$180001 - $190000	2
$190001 - $200000	1
$210001 - $220000	1
$240001 - $250000	2
$270001 - $280000	1
$290001 - $300000	1
$380001 - $390000	1
$410001 - $420000	2
$460001 - $470000	2
$580001 - $590000	1
$700001 - $710000	1

* Mr Knight's remuneration includes remuneration received while a director.

Officers' Securities Interests

The interests of the current company officers (including the chief executive) in securities of the company at 30 June 2016 were:

- Andrew Knight in respect of 29,600 ordinary share and 3,000,000 unlisted partly paid shares
- Ralph Noldan in respect of 16,567 ordinary shares and 532,000 unlisted partly paid shares
- Andrew Jefferies in respect of 800 ordinary shares and 722,000 unlisted partly paid shares
- Andre Gaylard in respect of 632,000 unlisted partly paid shares
- John Pagani in respect of 438,000 unlisted partly paid shares
- Michael Wright in respect of 494,000 unlisted partly paid shares
- Dr Chris McKeown in respect of 489,000 unlisted partly paid shares

Donations

There were no donations during the year.

Directors' and Officers' Liability Insurance

The company and its subsidiaries have arranged policies of directors' and officers' liability insurance, which, together with a deed of indemnity, seek to ensure to the extent permitted by law that directors and officers will incur no monetary loss as a result of actions legitimately taken by them as directors and officers.

Corporate Directory

Directors

Rodger Finlay,
Chairman

Dr Rosalind Archer

Rod Ritchie

Duncan Saville

Mark Tume

Management

Andrew Jefferies,
Acting Chief Executive

Andre Gaylard,
Chief Financial Officer

Dr Chris McKeown,
Acting VP Exploration & Production
(and GM SE Asia)

Ralph Noldan,
General Counsel and Company Secretary

John Pagani,
External Relations Manager

Michael Wright,
General Manager Commercial

Registered and Head Office

Level 20, 125 The Terrace
PO Box 10725
Wellington, New Zealand

Telephone: +64 4 495 2424
Email: enquiries@nzog.com

Auditors

KPMG

KPMG Centre, 10 Customhouse Quay
PO Box 996
Wellington, New Zealand

Share Registrar

New Zealand

Computershare Investor Services Ltd
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142
Telephone: +64 9 488 8777
Freephone: 0800 467 335 (within NZ)
Facsimile: +64 9 488 8787
Email: enquiry@computershare.co.nz

NEW ZEALAND
OIL & GAS