New Zealand Oil & Gas Limited
Annual Report 2007

Contents

Annual General Meeting

Shareholders of New Zealand Oil & Gas Limited are invited to attend the 2007 Annual General Meeting at the Inter-Continental Hotel, 2 Grey Street, Wellington at 10.30am on Friday 26 October 2007.

Company Profile

New Zealand Oil & Gas Limited (NZOG) is a partner in the producing Tui Area Oil Fields and the Kupe field development. NZOG has exploration interests in offshore Taranaki and is New Zealand's largest listed petroleum company. NZOG also successfully brought to market the Pike River Coal Limited coking coal development and remains that company's biggest individual shareholder.

2007 Annual Report

The 2007 Annual Report of New Zealand is approved for and on behalf of the Board.

PG Foley
Director
12 September 2007

R A Radford
Director
12 September 2007

New Zealand Oil & Gas Limited
NZ Reg. Coy. No. WN 037 842 ARBN 003 064 962

A Year of Achievement

Chairman's Review

I am very pleased to comment upon a year of very substantial progress for the company.

The three-pronged development programme gathered pace during the 2007 financial year and is now producing substantial tangible benefits, with the production of oil from the Tui Area Oil Fields having commenced on 30 July 2007.

Another major milestone was achieved by bringing Pike River Coal Limited to the investment market through a successful equity raising of $85 million by the company, which is now separately listed on both the NZSX and ASX.

NZOG's third production project, Kupe, remains on schedule to deliver first production by mid 2009, from which it will provide a long-term revenue stream from a product mix of gas, oil condensate and LPG.

Exploration activity during the year was focused on drilling the Tieke, Hector and Taranui prospects in the offshore Taranaki Basin, unfortunately all with disappointing results. However, the Board sees exploration as strategically important in sustaining and increasing NZOG's petroleum reserves and production and is keen to increase the company's portfolio of exploration prospects. The recent award of the Toke permit (exploration permit PEP 38499) immediately south of the Tui mining permit, and in which NZOG holds a 12.5% interest, advances this objective. In the coming financial year, the company has earmarked the Momoho prospect (within the Kupe mining permit PML38146) and the Felix prospect (exploration permit PEP38729) as prospects mature for drilling. There may also be the opportunity for further drilling within the Tui mining permit (PMP38158).

Cash invested by NZOG in the Tui, Pike River and Kupe projects, plus exploration drilling, totalled around $110 million during the 2006/2007 year. Funding for a significant part of this was provided by the strongly supported and very successful rights issue made to all NZOG shareholders, concluded in January 2007, and associated share placements, which together raised $43 million.

The financial result of a $6.6 million surplus for the year ended 30 June 2007 was arrived at after including "one-off" gains in respect of the successful IPO of Pike River and through the realisation of the company's investment in Pan Pacific Petroleum NL. NZOG's results for 2007/08 will have a different mix, with production revenues from the Tui Area Oil Fields being a key component of profits and cash generation.

During the year in review, NZOG appointed David Salisbury as CEO, effective from April 2007. David was also appointed as a director. The Board has set a target of increasing the size of NZOG's reserves to at least 25 million barrels and our production output to at least 2 million barrels per year by 2012. Our new CEO's extensive experience in the upstream petroleum industry, both locally and internationally, makes him very well qualified to lead the company to achieve these growth targets.

One clear objective is to ensure that NZOG's value is fully recognised in the marketplace ahead of the 30 June 2008 final date for option holders to exercise the share options which the company has on issue.

As an investor, your continued support is a valued part of NZOG's ability to achieve the future profitable growth that we are committed to delivering to our shareholders.

R A Radford
Chairman

Production

- Tui Area Oil Fields commenced production at the end of July 2007
- 1.5 million barrels of Tui oil have been shipped to date

Development

- Pike development progressed – tunnel over 60% complete
- Kupe development project significantly advanced

Corporate

- $43 million capital raised through rights issue to all shareholders and share placements
- Pike IPO fully oversubscribed for $85 million

High lights

CEO's Review

Building on the Success

David Salisbury
Chief Executive

It is my pleasure to present my first annual report as Chief Executive. My first few months have certainly been exciting as NZOG has positioned itself to capitalise on recent successes.

Significant progress is clearly evident. NZOG has three key assets and exploration upside providing a solid and diversified platform for growth.

A year ago, the Tui Area Oil Fields were a development project. Now oil is flowing at a time when the market is delivering highly attractive pricing. We expect that with minor facilities modifications, currently underway, the Tui Area Oil Fields will produce at their peak facilities design capacity of 50,000 barrels of oil per day. At current oil prices and exchange rates, NZOG's share of Tui revenues over the 2008 financial year is expected to exceed $100 million.

A very exciting development in respect of the Tui Area Oil Fields is the reserves upgrade. In August the Tui project operator (AWE) completed a preliminary post-drilling reserves assessment which indicates that proved and probable (2P) developed reserves for the Tui Area Oil Fields are 32 million barrels. This is an increase of 15% over undeveloped reserves reported prior to drilling. At current oil prices and exchange rates the increase in 2P reserves will deliver NZOG approximately $50 million in additional revenues with only minor associated operating costs. In addition, potential for further undeveloped reserves has been identified. The project operator is now undertaking a more comprehensive study to evaluate the economic potential of the undeveloped reserves. This study is expected to be completed by end-November 2007.

Pike River coal is another significant success story. On 10 July 2007 the Pike River Coal Limited (PRCL) initial public offer, of which NZOG was promoter, closed raising $85 million to continue development of the coking coal mine. PRCL is now a separately listed company in which NZOG holds 31% of ordinary shares, 11 million options and 3.5 million convertible notes. This combination of public listing and retained interest, is an excellent outcome. It establishes PRCL as an independent entity focused solely on development of the coal mine with substantial funding in place to fund its growth, whilst ensuring that NZOG shareholders benefit from that growth.

A year on, the development of the Kupe gas/condensate field remains on schedule for first production by mid-2009. As work on the project has progressed and we have gained more information, the Kupe project operator (Origin Energy) has completed a detailed cost and schedule re-forecasting exercise. The project has experienced cost pressures which are expected to increase the total cost by around ten percent. While obviously disappointing, it is a feature of the business at present that high product prices (from which we benefit) are driving very high levels of activity and demand for resources which in turn are feeding through into cost increases and schedule delays.

With this base of quality projects in place, the Board has set ambitious growth targets for the years ahead. By 2012, we want to see our 14 million barrels of 2P reserves increase to at least 25 million barrels. Within the same timeframe, the Board has set a target for production to double to two million barrels production per year.

We expect to spend around $25 million on our exploration opportunities in the 2008 financial year. The Hector-1 well was unfortunately dry. The Taranui-1 well encountered only minor oil shows. Evaluation of data obtained during drilling is still in progress, but logs recorded while drilling indicate that this is probably not a commercial discovery. This comes with the territory in the exploration business. Ahead of drilling wells we apply the best technical knowledge to de-risk the prospects, but there comes a point when we need to drill to determine whether or not there is oil and/or gas that will flow in commercial quantities. Sometimes they are successful, often times not, but a broad exploration portfolio will help spread risk and enhance expected returns.

The Kupe joint venture is planning to drill the Momoho exploration well in the second quarter of 2008. We also operate the Felix prospect which has been recently upgraded following the acquisition of new seismic data and where we are planning on drilling around the middle of 2008.

We do not rely solely on our 2008 exploration programme to deliver the targeted growth. For that reason, we continue to build an inventory of new exploration opportunities, are seeking to acquire fresh exploration acreage, and are on the look-out for acquisition opportunities.

Much remains to be done to capitalise on our current successes. A key priority has been to recruit further experienced staff capable of realising our growth strategy. To that end, in the past month we have appointed talented people to the positions of chief geophysicist, staff geoscience co-ordinator, reservoir engineering manager, public affairs manager, commercial manager and legal counsel. With our expanded team in place, we are well resourced to pursue our targeted growth.

Over the past while, NZOG shareholders have witnessed enormous capital investment - over $110 million in the past year alone. That situation is now reversing with cash flowing from Tui, Kupe funding organised, and Pike River largely independently financed.

For our part, this is no time to rest. Even as the returns from the present projects begin, we are planning and looking to the next phase of growth and returns for you.

I would like to take this opportunity to thank the NZOG team for all the very hard work and the long hours they have invested in bringing the current projects to market. I would also like to thank their families for their support and tolerance of this demanding workload.

I look forward to reporting back to you on our returns from Tui, progress at Kupe, and our plans to further boost NZOG's future.

Operations Report

Tui Area Oil Project

PMP38158
Our stake 12.5%

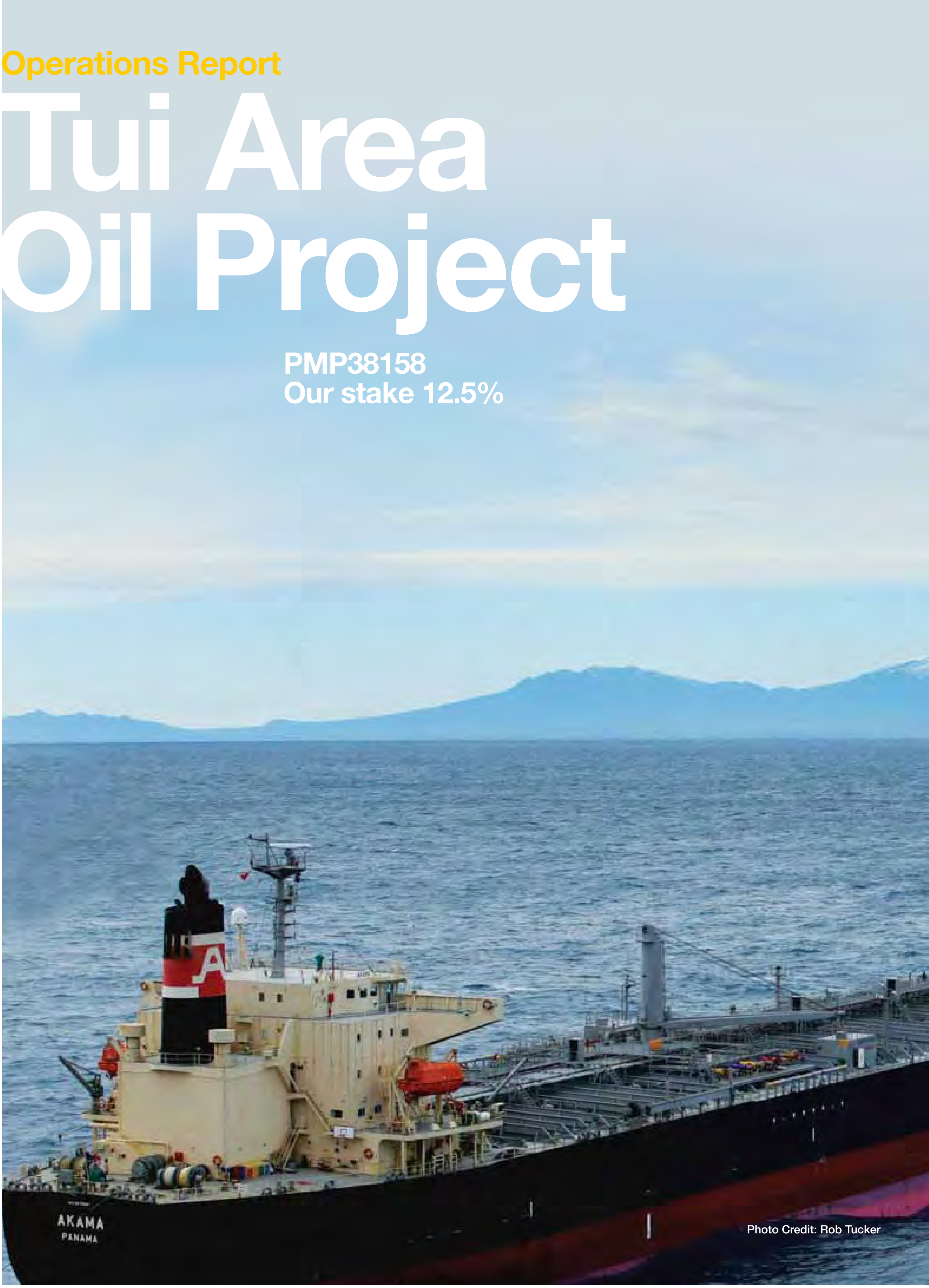


Photo Credit: Rob Tucker

The Tui Area Oil project encompasses the Tui, Amokura and Pateke oil pools discovered by NZOG and its co-venturers in 2003/2004. First oil began flowing on 30 July 2007, and by the time of writing the first four oil shipments, totalling approximately 1.5 million barrels, had been made. All four production wells are producing successfully. Production is expected to reach 50,000 barrels per day, consistent with the design capacity for oil recovery of the Floating Production Storage and Offtake (FPSO) vessel Umuroa, once minor process modifications have been made. The wells are in aggregate capable of producing over 100,000 barrels of oil per day. However such rapid oil recovery from the fields is not optimal and the wells are therefore choked back from full production.

The four horizontally drilled and subsea completed wells are individually tied back to the leased FPSO Umuroa. The production wells were drilled with extended horizontal sections, which range from 800 to 1850 metres. The drilling programme successfully used an innovative geosteering system called Periscope-15 which allowed the drilling tool to "see" the top of the reservoir boundary surface and stay close to it within the relatively thin oil columns making up the Tui Area Oil Fields, to ensure maximum oil recovery.

The Tui opening ceremony, which was attended by the Prime Minister, our joint venture partners and local guests was held on 16 August 2007. It was a day on which we not only recognised all that had been achieved through the project, but also marked the first shipment of oil to market. Mitsui is marketing the oil and we look forward to benefiting from Mitsui's extensive global experience and networks.

High initial flow rates combined with strong oil prices mean Tui is generating strong cashflow. At current oil prices and exchange rates, sales revenues from the Tui Area Oil Fields for our first production year are expected to exceed $100 million. In the course of the project, the construction budget climbed from US$203 million to US$269 million, which represents a 33% increase. NZOG's investment in the Tui Area Oil project is funded through a US$27.5 million cash advance facility which covers most of our project cost share of US$34 million. The FPSO is leased through a five year charter with five further one year rights of renewal.

A preliminary post-drilling reassessment has led to a 15% upgrade in the size of the fields' 2P (proved and probable) reserves, bringing the total estimated size of Tui Area Oil Fields to 32 million barrels. In addition, the reassessment showed there was good potential for further undeveloped reserves. A comprehensive study is now underway to confirm this reserves upgrade and to assess the full extent of the reserves upgrade including the undeveloped reserves.

Operations Report

Kupe Gas Oil and LPG

PML38146
Our stake 15%

The Kupe development, which stands in relatively shallow water of 32 metres, involves an offshore unmanned platform, three initial production wells, a 30 kilometre pipeline for transport of the well-stream to shore and a new onshore production station. Construction continues at pace, and we are pleased to report good progress: the jacket has arrived; topsides will arrive by November 2007; the pipeline is in the country; the horizontally directionally drilled shore crossing has been successfully drilled; and the production station earthworks and civil works are substantially completed.

A comprehensive budget review by the project operator (Origin Energy) has seen the projected budget of $980 million increase by around 10%, pushed up mainly by rising industry costs worldwide. This will mean our share of the budget, projected originally at $147 million, will increase by approximately $15 million.

Funding for the Kupe development of around $50 million has to date been met through equity contributions from our general sources of funding. The remaining expected development costs will be funded through debt facilities with Westpac Bank.

A key element of the project is the gas supply contract with Genesis Energy, which has been renegotiated to exclude the Genesis funding facility and was executed during the period.

Kupe production is on schedule for mid-2009, at which time it will start delivering around 20 petajoules per annum of sales gas – approximately 12% of New Zealand's current annual demand. In addition, Kupe will produce condensate, at an initial rate of 1.9 million barrels a year, and LPG at an initial rate of 90,000 tonnes per year.

As well as the identified reserves in this field, the Kupe permit area also has promising exploration potential. We are currently planning to drill the Momoho prospect, which we believe is sizeable. Momoho is in close proximity to the Kupe central field development and could be economically brought to market using the planned facilities. Other prospects in this permit will be further delineated in due course.

New Zealand Oil and Gas Taranaki Basin Permits


N
0 8 16 24 32 40
KILOMETRES
Felix Prospect
Pohokura Field
Tui Field
Oi Prospect
Kahu Prospect
Tieke Prospect
Toke Prospect
Maui Field
Kakapo Prospect
Maari Field
Toru Discovery
Denby-Leith Prospect
Kupe Field
Momoho Prospect

Exploration Activities

We are continuing with a full exploration programme. The Hector prospect has been drilled and despite pre-drill science showing a healthy geological chance of success, no significant hydrocarbon shows were made. The well results are currently being evaluated to give us a better understanding of the surrounding geology. The Hector-1 well itself has been plugged and abandoned.

The Tieke prospect, located approximately 7 kilometres southeast of Tui, was drilled during the period and encountered only minor hydrocarbon shows. A decision as to whether to sidetrack to proceed with exploration of the Tieke prospect is still pending on further assessment by the project operator.

The Taranui prospect was drilled to target depth in August and was the last well drilled in NZOG's 2006/07 exploration programme. A comprehensive suite of wireline logs were successfully completed, including pressure testing and fluid sampling of both the Kapuni F and D sands. A small volume of oil was recovered from the Kapuni D sands during this sampling programme. The data is still being reviewed, but initial indications are that these zones will not be commercially significant.

We are planning to drill the Momoho Prospect, which is close to the Kupe central field and has promising potential.

The Felix prospect, located at the northern end of the Kapuni Group ancient beach sands system, appears attractive and we are in the process of seeking farm-in partners and procuring a drilling rig to drill an exploration well. We are looking to sell down our interest from the current level of 75%.

We hope that over the coming year, new seismic data recently recorded over the new Toke permit (exploration permit PEP 38499) situated to the south of the Tui mining licence will firm up further drillable exploration prospects.

Pike River Coal Limited

Our stake 31% of ordinary shares

The successful initial public offer (IPO) of Pike River Coal Limited (PRCL) saw the float oversubscribed at $85 million. To enable listing on the ASX, PRCL was required to show that it was a fully funded development. To support the listing, NZOG agreed to commit further funding support to Pike River of up to $25 million to fund completion of the mine. The funding, if requested by PRCL following the investment of the full IPO proceeds into mine development, will be on usual and reasonable arm's length terms and conditions to be agreed.

The development involves construction of a tunnel to access the coal deposit, installation of a coal slurry pipeline and coal preparation plant, and establishment of a new coal transport chain from mine to export port using the "Blue Highway" between Port Westland in Greymouth and Port Taranaki. First production of high quality coking coal from the Pike River coal mine is scheduled for mid 2008. Production is scheduled to rise to 1.1 million tonnes per annum in the year ending December 2009.

Work on the 2.3 kilometre tunnel by internationally experienced contractor, McConnell Dowell, is now around 60% completed, and construction works have begun on the coal preparation plant site. The transport chain agreements with West Coast Coal Consortium are now finalised.

PRCL is now a separate publicly listed entity with its own offices, operations and staff. NZOG retains a strong interest through its stake of 62 million shares, 11 million options and 3.5 million convertible notes and is represented on the PRCL board by two NZOG directors.

Corporate Update

The sale of Pan Pacific Petroleum NL shares earlier in the year provided cash which was used for investment into our development projects. The sale yielded $12.5 million net proceeds giving a profit over book value of $8 million. The company advanced $16.3 million to Pike River Coal Limited in short term funding prior to PRCL receiving monies from its IPO. This funding was repaid in July 2007 from the IPO proceeds.

The successful rights issue to all NZOG shareholders and associated share placements together raised $43 million.

Financial Review

NZOG recorded a surplus of $6.6 million (excluding minority interests) for the year ended 30 June 2007. This compares with a surplus in 2006 of $2.3 million. The surplus in 2007 was made after writing off exploration costs of $3.7 million. Total revenue for the year was $18 million (2006 $7.5 million). This includes a $4.6 million gain in respect of the company's shareholding in PRCL and an $8 million gain on the sale of our interests in Pan Pacific Petroleum NL. It also includes interest income of $2.3 million (2006 $2.3 million) and a foreign exchange gain of $2.7 million (2006 gain $2.7 million).

During the year, NZOG group invested $110 million in its three development projects: Kupe gas/condensate field, Tui oil, and Pike River coal.

As at 30 June 2007 NZOG held cash of $35.4 million.

Reserves and Resources Statement

Oil & Gas Reserves and Resources	Oil and Condensate (million barrels)		Natural Gas (petajoules)		LPG (kilotonnes)		Million Barrels of Oil Equivalent*
Proved and Probable	2007	2006	2007	2006	2007	2006	
Kupe* (undeveloped) 15%	2.2	2.2	38	38	159	159	9.9
Tui (developed) 12.5%	4.0	3.5					4.0
Total							**13.9**

* Million barrels of oil equivalent has been calculated as the total oil equivalent of the oil, condensate, natural gas and LPG figures.

Notes

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

The group's interests in oil and gas reserves are in the Kupe and Tui fields (offshore South Taranaki).

(2) Oil and gas reserves are reported in accordance with Section 10.11 of the New Zealand Stock Exchange listing rules. Oil and gas reserves are unaudited and accurately reflect information supplied by the respective Joint Venture Operators.

NZOG Forecast Annual Production of Oil & Gas

*Source: Tui Oil production forecast from Tui Operator (AWE). NZOG has calculated the approximate barrels of oil equivalent for Kupe gas forecasts from the Kupe Operator (Origin Energy).

Health, Safety and the Environment

The company's board, management and employees are committed to providing a safe and healthy workplace and environment for all employees, authorised visitors and general public.

The company aims to ensure that it operates safely and provides appropriate training for employees at all levels of the company. The company actively works to ensure that workplace and environmental risks are identified and processes are in place to manage identified risks. The company has full confidence that the projects in which it participates are being responsibly managed from an HSE perspective including addressing hazard, incident and injury prevention.

The company believes that a safe environment is the individual and shared responsibility of the company and all its employees, and makes the well-being of all associated personnel a priority in all of its operations.

The company is committed to positively contributing to the environment in which it operates. Through Pike River Coal Limited's sponsorship of the Department of Conservation administered Blue Duck enhancement programme, it provides a financial contribution of $70,000 per annum that helps to ensure the future of this beautiful New Zealand native bird. The programme is currently focused on pest control in the heavily pest infected Pike Stream catchment area.

Contributing to Our Communities

The company contributes to a number of projects in the communities in which it operates.

Kupe Gas Project

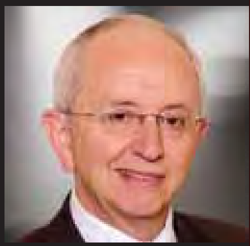
Through NZOG's involvement in the Kupe Gas Project, the company provides support to the South Taranaki community. This year, through the youth development fund, the company contributed funds that helped to provide a new school van for Manaia School to cover the lease and running costs for three years.

NZOG also supports the local community through the Kupe Gas Projects Community Grants programme. In order to be considered for a grant, community groups and voluntary organisations must be involved in an activity that benefits the population in the South Taranaki area. For 2007, the grants programme received over 50 applications. 11 applicants were successful, resulting in a total of $50,000 being awarded in grants to various community groups in the local area. NZOG is proud to be associated with the provision of these funds and to support the local community in South Taranaki.

Pike River Coal Limited

PRCL is the principal sponsor for the Pike River Coal Mobile Search and Rescue Unit providing vital support for the West Coast. This funding has assisted the establishment of dedicated Operations rooms in both Greymouth and Westport from which to run search and rescue operations.

Directors



Mr R A Radford
Chairman

Tony Radford, ACA has spent most of his career in petroleum and mining companies, including senior financial positions in steel, minerals, oil and gas industries. Tony is a founding director of NZOG.

Prof R F Meyer
Deputy Chairman

Ray Meyer, PhD, BE is a Distinguished Fellow of the Institution of Professional Engineers New Zealand. He was Professor of Mechanical Engineering and Dean of Engineering at the University of Auckland and has been a director of a number of New Zealand companies. He is also currently a director of Wellington Drive Technologies Ltd. Ray joined the NZOG board in 2000 as Deputy Chairman and also heads the board's audit and remuneration committees.

Mr P G Foley

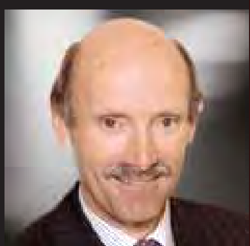
Paul Foley is a senior corporate and commercial lawyer based in Wellington, where he is a partner in Minter Ellison Rudd Watts. Paul acts for listed companies operating in the petroleum exploration and minerals fields. He became a director of NZOG in 2000.

Mr D J Salisbury
CEO and Managing Director

See biographical notes under Management Team.

Mr S J Rawson

Steve Rawson has an MSc in geophysics from Auckland University. His career started in petroleum geophysics, later followed by managerial positions with Fletcher Energy in trading, logistics and supply. Steve is General Manager New Business Development for Mighty River Power. He joined the board of NZOG in 2000.



Mr D R Scoffham

David Scoffham, MSc (Imperial College), MA (Oxon), joined the board of NZOG in 2003. David has over 30 years international experience in the oil industry including experience in Egypt, Gabon, Oman and Venezuela with Shell, and in exploration management with UK independent Enterprise Oil plc. He played a major role in several important oilfield discoveries in NW Europe, which resulted in the major expansion of Enterprise Oil.

Management Team

Kaye Pailthorpe
Office Manager

Kaye joined NZOG in October 2004. Kaye has over 25 years experience in the legal and financial sectors. She was appointed Office Manager in April 2007 with responsibility for organisational affairs and office administration, and also acts as executive assistant to David Salisbury.

Andrew Stewart
Chief Financial Officer MBA, BCA, CA (ICANZ)

Andrew joined NZOG in 2004 bringing with him financial expertise gained from 20 years in accounting, financial and management roles. Andrew has worked for various companies including large multi-nationals such as the former New Zealand Dairy Board, Fonterra, Coca~Cola and Rolls-Royce.

David Salisbury
Chief Executive Officer
LLB, BCA

David was appointed CEO and Managing Director in April 2007 after returning from Vienna where he managed international business development for OMV. David has extensive experience in the E&P and wider energy sectors in New Zealand and overseas. He has held senior management roles with New Zealand and European E&P companies.

Helen Mackay
General Counsel
LLB, BCA

Helen joined NZOG in July 2006 with responsibility for legal affairs, corporate governance and stakeholder relations. Helen was previously in legal and commercial roles with ECNZ, NGC and Vector and has practised as an in-house lawyer in New Zealand and England. She is also President of the Corporate Lawyers Association of New Zealand.

Dr Jonathan Salo
Exploration Manager
PhD, BA, BASc

Jonathan has more than 25 years petroleum industry experience in the USA, Africa, Middle East, Asia, and Australasia. Jonathan is credited by professional organisations with participating in the discovery of approximately 5 billion barrels of oil or gas equivalent. His PhD in Petroleum Geology focuses on CO2 injection and geosequestration with enhanced oil/gas recovery.

New Zealand Oil & Gas

Financial Statements

Statement of Financial Performance

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Total revenue	2(i)	18,039	7,535	18,232	7,668
Operating surplus/(deficit) before taxation		**6,728**	**2,521**	**13,049**	**4,620**
Taxation (expense)/benefit	18	(399)	(112)	-	-
Operating surplus/(deficit) after taxation		6,329	2,409	13,049	4,620
Net surplus/(deficit) for the period		**6,329**	**2,409**	**13,049**	**4,620**
Net surplus/(deficit) comprises:					
Parent interest		6,627	2,302		
Minority interest	3	(298)	107		
		6,329	**2,409**		

Statement of Movements in Equity

FOR THE YEAR ENDED 30 JUNE 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Equity at beginning of period		**139,013**	**90,916**	**83,438**	**66,984**
Net surplus/(deficit) for the period					
- Attributed to parent		6,627	2,302	13,049	4,620
- Attributed to minority interest		(298)	107	-	-
Total recognised revenues and expenses		6,329	2,409	13,049	4,620
Contribution from owners:					
Shares issued	4	42,574	11,833	42,574	11,833
Share options exercised	4(i)	5	1	5	1
Shares issued in subsidiary company to minority interest	3	(4,612)	33,854	-	-
		37,967	45,688	42,579	11,834
Equity at end of period		**183,309**	**139,013**	**139,066**	**83,438**

The notes on pages 25 to 41 form part of and are to be read in conjunction with these financial statements.

Statement of Financial Position

AS AT 30 JUNE 2007

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current Assets					
Short term securities and cash deposits	5	35,383	41,712	18,485	10,846
Receivables and prepayments	6	2,678	21,515	1,040	920
Deferred expenses	6	3,999	1,339	-	-
Advances to related parties	9	-	-	49,374	976
Inventories	7	32	116	-	-
Total Current Assets		42,092	64,682	68,899	12,742
Non-Current Assets					
Convertible notes	6	-	-	3,500	-
Deferred expenses	6	3,547	1,815	-	-
Investment in listed resource company	8	-	4,583	-	3,661
Investment in subsidiaries	9	-	-	75,681	66,043
Investment in associate company	9	2,280	2,280	2,280	2,280
Fixed assets	10	486	521	256	215
Petroleum and coal interests	12	212,658	90,266	-	-
Other non-current assets	13	5,536	2,622	-	-
Total Non-Current Assets		224,507	102,087	81,717	72,199
Total Assets		**266,599**	**166,769**	**150,616**	**84,941**
Current Liabilities					
Creditors and accruals	14	26,775	9,788	1,454	1,345
Borrowings	15	39,236	-	10,000	-
Provisions	16	174	221	96	158
Total Current Liabilities		66,185	10,009	11,550	1,503
Non-Current Liabilities					
Borrowings	15	16,261	16,982	-	-
Provisions	16	844	643	-	-
Deferred taxation		-	122	-	-
Total Non-Current Liabilities		**17,105**	**17,747**	-	-
Total Liabilities		83,290	27,756	11,550	1,503
Net Assets		**183,309**	**139,013**	**139,066**	**83,438**
Equity					
Attributable to Shareholders of the company	4	149,884	100,678	139,066	83,438
Attributable to Minority Shareholders of the group	3	33,425	38,335	-	-
Total Shareholders' Equity		**183,309**	**139,013**	**139,066**	**83,438**

The notes on pages 25 to 41 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors

P G Foley
Director
29 August 2007

R A Radford
Director
29 August 2007

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2007

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Cash Flows from Operating Activities				
Cash was received from:				
Interest received	2,147	2,309	1,092	1,485
Dividends	-	-	-	5,367
Other income	114	-	707	805
	2,261	2,309	1,799	7,657
Cash was paid for:				
Interest paid	(12)	(28)	(12)	(1)
Other payments to suppliers and employees	(6,392)	(5,015)	(4,141)	(3,329)
	(6,404)	(5,043)	(4,153)	(3,330)
Net Cash Flows from Operating Activities	(4,143)	(2,734)	(2,354)	4,327
Cash Flows from Investing Activities				
Cash was received from:				
Sale of investment in subsidiary & associate companies	-	323	-	2,189
Sale of investment in listed resource company	12,550	-	9,890	-
Loans repaid by related parties	-	-	-	3,989
	12,550	323	9,890	6,178
Cash was paid for:				
Petroleum and coal expenditures	(110,414)	(43,415)	-	-
Petroleum and coal interest costs	(834)	-	-	-
Purchase of other fixed assets	(171)	(351)	(147)	(89)
Purchase of shares in listed resource company	-	(3,120)	-	(3,120)
Purchase of shares in unlisted resource company	-	-	-	(7,840)
Loan to other entities and wholly owned subsidiaries	-	-	(48,399)	(49,956)
Convertible notes	-	-	(3,500)	-
Security deposits	(2,914)	(2,558)	-	-
	(114,333)	(49,444)	(52,046)	(61,005)
Net Cash Flows from Investing Activities	(101,783)	(49,121)	(42,156)	(54,827)
Cash Flows from Financing Activities				
Cash was received from:				
Issue of shares in partly owned subsidiary	19,400	16,970	-	-
Issue of shares from exercise of options	5	1,325	5	1,325
Issue of shares	42,567	11,833	42,567	11,833
Proceeds from borrowings	39,045	16,982	10,000	-
Proceeds from convertible notes	7,500	-	-	-
	108,517	47,110	52,572	13,158
Cash was paid for:				
Repayment of borrowings	(2,404)	-	-	-
Deferred expenditure	(3,738)	(5,910)	-	-
Other	(35)	-	(35)	-
	(6,177)	(5,910)	(35)	-
Net Cash Flows from Financing Activities	102,340	41,200	52,537	13,158
Net (Decrease)/Increase in Cash	(3,586)	(10,655)	8,027	(37,342)
Cash at beginning of period	41,712	49,663	10,846	48,269
Effect of exchange rate changes on cash	(2,743)	2,704	(388)	(81)
Cash at End of Period	35,383	41,712	18,485	10,846
Made up as follows:				
Short term securities and cash deposits	35,383	41,712	18,485	10,846

The notes on pages 25 to 41 form part of and are to be read in conjunction with these financial statements.

Statement of Cash Flows (continued)

RECONCILIATION OF NET SURPLUS/(DEFICIT) FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Net surplus/(deficit) after taxation	6,627	2,302	13,049	4,620
Adjust for non-cash items in operating surplus/(deficit):				
Gain in reduction of interest in subsidiary	(4,612)	(2,522)	-	-
Gain on sale of investments	(7,966)	-	(6,228)	-
Depreciation	207	106	108	72
Deferred tax	(122)	122	-	-
Write-off/(back) or provision for exploration, petroleum and coal expenditure	3,700	797	-	-
Write-off/(back) or provision for investment in subsidaries	-	-	(9,638)	-
Movement in minority interest	(298)	107	-	-
	(9,091)	(1,390)	(15,758)	72
Changes in assets and liabilities:				
Decrease/(increase) in debtors	2,404	(1,721)	(87)	(759)
(Decrease)/increase in creditors	(1,759)	467	80	73
Decrease/(increase) in provisions	193	312	(26)	240
Items included in other cash flow categories:				
Exchange losses/(gains)	2,743	(2,704)	388	81
Items classified as financing activities	(5,260)	-	-	-
	(1,679)	(3,646)	355	(365)
Net Cash Flow from Operating Activities	(4,143)	(2,734)	(2,354)	4,327

The notes on pages 25 to 41 form part of and are to be read in conjunction with these financial statements.

Notes to the Financial Statements

1. Statement Of Accounting Policies

Reporting Entity

The reporting entity is New Zealand Oil & Gas Limited ('the company' or 'NZOG') and its subsidiary companies ('the group').

Statutory Base

The financial statements have been prepared in accordance with generally accepted accounting practice and in compliance with the Companies Act 1993 and the Financial Reporting Act 1993. The company is an issuer under the Financial Reporting Act 1993.

Measurement Base

The measurement base adopted is historical cost adjusted by the revaluation of certain assets. All amounts shown in the financial statements are exclusive of GST.

Changes in Accounting Policies

There have been no material changes in accounting policies. All policies have been applied on bases consistent with those used in the previous period.

Summarised hereafter are the significant accounting policies adopted.

Basis of Consolidation

(a) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company together with the financial statements of its subsidiary companies.

The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method. All significant intercompany transactions have been eliminated on consolidation.

Where subsidiaries are acquired during the period, their results are included only from the date of acquisition, while for subsidiaries disposed of during the period, their results are included to the date of disposal.

(ii) Associate Companies

Where material, associate companies are equity accounted and investments in associate companies are shown at cost plus the share of movement in net assets since acquisition. Where, in the opinion of the directors, a permanent diminution in value has occurred, investments in associate companies are written down to their recoverable amount.

(iii) Treasury Capital

The treasury stock accounting method is used to remove the company's interest in shares held directly or indirectly in its own capital ('treasury capital'). The effect is to reduce the company's externally available capital and reserves and to eliminate the investment in the company.

(b) Balance on Acquisition

On the acquisition of a subsidiary, the fair value of net identifiable assets is ascertained. The difference between the fair value and the cost of investment is brought to account either as a premium (goodwill) or discount on acquisition.

Goodwill is amortised by systematic charges against income over the appropriate periods in which benefits are expected to be realised, but not exceeding twenty years. The periods over which the amounts are to be amortised are subject to annual review.

Any discount on acquisition remaining after elimination against the fair value of the non-monetary assets of the subsidiary is taken to the statement of financial performance as a gain.

Production, Development, Exploration and Evaluation Expenditure

Expenditure incurred on petroleum and coal 'areas of interest' is accounted for using the successful efforts method. An area of interest is defined by the group as a licence or permit area. Exploration and evaluation expenditure (together with certain inter-group advances relative to these expenditures), is written off in the statement of financial performance under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable reserves or resources, as applicable, or when the decision to abandon an area of interest is made.

Notes to the Financial Statements (continued)

Where expenditure carried forward in an area of interest or any part thereof, exceeds the directors' valuation of that area of interest the costs are written down to the directors' valuation.

Directors' valuations of areas of interest, especially projects at a pre-development stage, are dependent upon a number of factors that are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the ability to secure sales contracts, levels of reserves, production profiles, estimates of future product sales prices, operating costs, capital expenditures, availability of financing and tax losses and legislative changes.

(i) Production interests

Production interests comprise exploration, evaluation and development costs (excluding fixed asset expenditure) incurred in relation to areas of interest in which petroleum or coal production has commenced. Expenditure on production interests is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable proven reserves or resources, as applicable. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

(ii) Development interests

Development interests comprise costs incurred on areas of interest which are being developed for production.

No amortisation is provided in respect of development areas of interest until they are reclassified as production areas following commencement of petroleum or coal production.

(iii) Exploration and Evaluation interests

Exploration and evaluation interests comprise costs incurred in areas of interest for which rights of tenure are current and:

(a) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or

(b) exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves or resources, as applicable, and active and significant operations in, or in relation to, these areas are continuing.

The ultimate value of areas of interest is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of permits granted and joint venture agreements.

Sales of prospecting and mining permit rights are shown as revenue in the period earned.

Restoration and Rehabilitation Expenditure

Significant restoration and rehabilitation expenditure to be incurred subsequent to the cessation of production from production areas of interest is provided for based on best estimates of the expenditure required to settle the present obligation at balance date and expensed in the statement of financial performance using the outputs method.

Joint Ventures

Where material the group consolidates its interest in the assets, liabilities, revenues and expenses of unincorporated joint ventures under appropriate headings in the financial statements using the proportionate method of consolidation.

Petroleum or Coal Sales Revenue

Petroleum or coal sales represent the group's share of invoiced sales following delivery of oil and gas or coal products.

Unearned Income

Payments received under 'take or pay' sales contracts where gas is not yet delivered, are treated as unearned income. The payments are recognised as income in the statement of financial performance once the gas is delivered.

Administration and Operating Expenses

The group incurs certain administration and operating expenses, which are recovered in the normal course of operations. A proportion of those expenses which relate to the group are reflected in the current year's accumulated production, development and exploration expenditure.

In terms of the group's accounting policy, certain amounts of the accumulated expenditure may be written off each year. As a result, it is not possible to identify those individual administration and operating expenses, which have been charged to the statement of financial performance.

Trade Receivables

Trade receivables are stated at their estimated net realisable value.

Notes to the Financial Statements (continued)

Inventories

Field operation consumables and finished goods are valued at the lower of cost and net realisable value.

Land

Land is stated at cost, except where in the opinion of directors, there is a permanent diminution in value, in which case it is recorded as its estimated recoverable amount.

Fixed Assets

Fixed assets are stated at cost less an allowance for depreciation.

Depreciation has been provided for on a straight line basis so as to charge the cost of fixed assets over their estimated economic lives assessed as follows:

Buildings	18 years
Plant and equipment	4-18 years
Motor vehicles and trucks	5 years
Office furniture and fittings	5-8 years
Technical & computer equipment	2-5 years

Production facilities and associated pipelines are depreciated on a basis consistent with the recognition of revenue over their economic life or straight line basis whichever is more appropriate. Thus, the economic life of such equipment is dependent on future production and remaining reserves, and therefore varies from project to project. Where such costs are not considered to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

Investments in Short Term Securities

Investments in short term securities are recorded at cost, or at cost adjusted for premium or discount amortisation. Premiums and discounts are capitalised and amortised from the date of purchase to maturity.

Investments in Listed Resource Companies

Investments in listed resource companies are recorded at the lower of cost and net realisable value.

Investments in Wholly Owned Subsidiaries

In the parent company's financial statements, investments in wholly owned subsidiaries are recorded at cost or directors valuation, except where, in the opinion of the directors, there is a permanent diminution in value, in which case they are written down to their estimated recoverable amount.

Where wholly owned subsidiary companies have sold petroleum or coal prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have revalued the investment in those companies to an amount not exceeding their underlying net assets.

Financial Guarantees

Where the parent acts as a guarantor for financing agreements entered into by a subsidiary or associate company of the group it considers the guarantee to be an insurance contract. When a financial guarantee exists the company will disclose the guarantee as a contingent liability and only recognise a liability if the payment becomes probable.

Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities, including those of integrated foreign operations, are translated at the closing rate, and exchange variations are included in the statement of financial performance as operating items.

Financial Instruments

The group is a party to financial instruments as part of its day to day operating activities. Financial instruments include short term securities and cash deposits, investments in listed resource companies, receivables, creditors and borrowings, certain non current assets and non current liabilities as well as certain off balance sheet instruments entered into in order to manage fluctuations in exchange rates, interest rates and oil prices.

Revenues and expenses (including gains and losses) in relation to all financial instruments are recognised in the statement of financial performance. All financial instruments other than off balance sheet instruments are recognised in the statement of financial position at cost.

Notes to the Financial Statements (continued)

Statement of Cash Flows

(i) **Cash** includes cash on hand and at bank, short term deposits, bank bills and government stock less any overdraft.

(ii) **Operating cash flows** represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.

(iii) **Investing cash flows** represents cash flows arising from the acquisition and divestment of investment and productive assets. Productive assets comprise fixed assets and accumulated petroleum and coal expenditure.

(iv) **Financing cash flows** represents cash flows arising from cash transactions affecting the capital structure of the group and cash flows from debt financing activities excluding interest on debt finance which is included in operating cash flows or investing activities if capitalised to the development of an asset.

Certain cash flows are netted in order to provide more meaningful disclosure.

Taxation

Income tax is recognised on the operating surplus/(deficit) before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

However, the net future income tax benefit relating to timing differences and tax losses is not carried forward as an asset in the statement of financial position unless the benefit is virtually certain of being realised.

Comparative Figures

Where necessary, the amounts for the previous year are reclassified to facilitate comparison.

2. TOTAL REVENUE AND OPERATING EXPENSES BEFORE TAXATION

Operating surplus/(deficit) before taxation has been determined after:

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
(i) Revenue:					
Interest received		2,270	2,309	1,321	1,485
Gain on reduction of interest in subsidiary	3	4,612	2,522	-	-
Dividends		-	-	-	5,367
Gain on sale of investments in listed resource companies	8	7,966	-	6,228	-
Write back of investment in subsidiary	9	-	-	9,638	91
Other (including net unrealised and realised exchange gains)		3,191	2,704	1,045	725
		18,039	7,535	18,232	7,668

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
(ii) Operating Expenses				
Directors' fees	443	265	210	210
Fees paid to parent company auditors	100	61	81	48
Fees paid to parent company auditors for other services	229	73	187	61
Fixed asset depreciation	207	106	108	72
Interest paid	64	39	40	1
Operating expenditure	6,568	3,673	4,557	2,656
Petroleum and coal exploration expenditure provided for or written off	3,700	797	-	-
	11,311	5,014	5,183	3,048

Notes to the Financial Statements (continued)

3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 30 June 2007 is based on a 46% (2006: 39%) minority interest in partly owned subsidiary Pike River Coal Limited ('PRCL').

Pursuant to an Equity Subscription Agreement (ESA) between New Zealand Oil & Gas Limited (NZOG), Saurashtra Fuels Private Limited (Saurashtra) and PRCL dated 20 September 2005 (the 'Saurashtra ESA'), PRCL received $14.9 million net of brokerage and underwriting costs on the issue of shares.

Pursuant to an Equity Subscription Agreement (ESA) between NZOG, Gujarat NRE Coke Limited (Gujarat) and PRCL dated 12 June 2006 (the 'Gujarat ESA'), PRCL received $19.4 million net of commitment fees from an issue of shares. These funds were received during August 2006.

During the year PRCL issued shares to Saurashtra and Gujarat pursuant to the Saurashtra ESA and Gujarat ESA, for no additional consideration. The additional issued shares under the ESA agreements were based on the original issue price being equal to the IPO price.

The issue of the PRCL prospectus on 5 June 2007 confirmed the IPO share price and enabled the group to recognise a further gain from the reduction in investment in PRCL of $4.6 million during the period. The gain is in addition to the original amount of $2.5 million recognised in 31 December 2005.

4. SHAREHOLDERS' EQUITY

	NOTE	GROUP 2007 NUMBER OF SHARES '000	GROUP 2007 $'000	GROUP 2006 NUMBER OF SHARES '000	GROUP 2006 $'000	PARENT 2007 NUMBER OF SHARES '000	PARENT 2007 $'000	PARENT 2006 NUMBER OF SHARES '000	PARENT 2006 $'000
Reported Paid in Share Capital									
Paid in share capital – opening balance		218,708	114,657	205,372	102,835	218,708	114,657	205,372	102,835
Shares issued		43,174	42,563	13,334	11,821	43,174	42,563	13,334	11,821
Options exercised	(i)	4	5	2	1	4	5	2	1
		261,886	157,225	218,708	114,657	261,886	157,225	218,708	114,657
Partly paid shares issued	(ii)	2,609	26	1,535	15	2,609	26	1,535	15
Treasury share elimination		(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)
Paid in share capital-closing balance		258,630	154,457	214,378	111,878	258,630	154,457	214,378	111,878
Options on issue	(i)	138,988	-	107,239	-	138,988	-	107,239	-
Retained Earnings									
Retained earnings at beginning of period			(14,091)		(16,393)		(34,905)		(39,525)
Net (deficit)/surplus for the period			6,627		2,302		13,049		4,620
Retained earnings at end of period			(7,464)		(14,091)		(21,856)		(34,905)
Share Revaluation Reserve:									
Opening and closing balance			-		-		6,465		6,465
Asset Revaluation Reserve:									
Opening and closing balance			2,891		2,891		-		-
Total Shareholders' Equity			149,884		100,678		139,066		83,438

Notes:

(i) During the year the company issued 31,750,267 ("2008 options") (2006: 107,088,759). Each option entitles the holder to subscribe for one share in the capital of the company at an exercise price of NZ$1.50 exercisable anytime up to 30 June 2008. In 2006 the company issued 150,000 options as part of an incentive program, which are unlisted and exercisable at $1.26.

(ii) During the year the company issued 1,073,500 partly paid shares (2006: 1,535,000), paid to NZ$0.01 each, to participants in the ESOP. Partly paid shares are entitled to a vote in proportion to the amount paid up.

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

5. SHORT TERM SECURITIES AND CASH DEPOSITS

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Bank		69	8	69	3
Cash on deposit	(i)	35,314	41,704	18,416	10,843
		35,383	41,712	18,485	10,846

Note:

(i) Included in cash on deposit are US dollar balances of US$10,353,000; NZ$13,463,000 (2006: US$16,345,000; NZ$26,700,000).

6. DEFERRED EXPENSES, RECEIVABLES AND PREPAYMENTS

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current					
Trade receivables and other debtors	(i)	2,100	1,864	530	920
Minority interest equity receivable		-	19,400	-	-
Interest receivable		162	-	229	-
Prepayments		416	251	281	-
Deferred expenses	(ii)	3,999	1,339	-	-
		6,677	22,854	1,040	920
Non-Current					
Deferred expenses	(iii)	3,547	1,815	-	-
Convertible notes	(iv)	-	-	3,500	-
		3,547	1,815	3,500	-

Notes:

(i) Parent company trade receivables includes $460,000 receivable (2006: $354,000) from subsidiary company PRCL.

(ii) Deferred expenses relate to IPO costs for PRCL and includes $89,000 (2006: $45,000) paid to the parent company auditors for services related to the IPO.

(iii) Deferred costs includes certain costs for financing development projects and includes $80,000 (2006: $24,000) paid to the parent company auditors for services relating to financing.

(iv) Convertible notes held by the Parent were issued by PRCL during the year.

7. INVENTORIES

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Field operation consumables	32	116	-	-

8. INVESTMENTS IN LISTED RESOURCE COMPANIES

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Non-Current				
Shares and options at book value	-	4,583	-	3,661
Market value based on listed share and option prices	-	9,364	-	5,578

All shares held in the listed resource companies were sold during the year.

9. INVESTMENTS IN SUBSIDARY AND ASSOCIATE COMPANIES

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Investment in subsidiaries		-	-	76,644	76,644
Provision for diminution	(vi)	-	-	(963)	(10,601)
Investment in wholly owned subsidiary companies		-	-	75,681	66,043
Intercompany loans and advances	(v)	-	-	49,374	976
Investment in associate company	(iv)	2,280	2,280	2,280	2,280

Wholly Owned Subsidiary Companies [see note (i)]

ANZ Resources Pty Limited [see note (iii)]
Australia and New Zealand Petroleum Limited
Delta Petroleum Limited [liquidated on 12 September 2006]
Kupe Royalties Limited
National Petroleum Limited
Nephrite Enterprises Limited
NZOG 38483 Limited
NZOG 38484 Limited
NZOG Deepwater Limited [see note (ii)]
NZOG Development Limited [see note (ii)]
NZOG Energy Limited [see note (ii)]
NZOG Offshore Limited [see note (ii)]
NZOG Resources Limited [see note (ii)]
NZOG Services Limited
NZOG Taranaki Limited [see note (ii)]
Oil Holdings Limited
Petroleum Equities Limited
Petroleum Resources Limited
Resource Equities Limited
Stewart Petroleum Company Limited

	NOTE	GROUP 2007 %	GROUP 2006 %
Partly Owned Subsidiaries			
Pafule Pty Limited [liquidated on 20 August 2006]	(iii)	-	60
Pike River Coal Limited		54	61
Associate Companies			
NZOG Nominees Limited	(iv)	50	50

Notes:

(i) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry. The associate company is an investment company.

(ii) Incorporated 21 December 2006.

(iii) Australian registered company.

(iv) Equity accounting for associate companies has not been applied as the amounts involved are not material.

(v) Intercompany loans and advances includes a short term advance to PRCL of $16,264,000 (2006: $nil) and wholly owned subsidiaries of $33,110,000 (2006: $976,000). The loan to wholly owned subsidiaries is non-interest bearing and repayable on demand.

(vi) During the year the parent company wrote back the $9.6 million provision for diminution in value of Stewart Petroleum Company Limited as a result of the Tui development achieving first oil.

10. FIXED ASSETS

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Other Fixed Assets					
Cost	(i)	847	681	479	336
Accumulated depreciation		(361)	(160)	(223)	(121)
Book Value of Fixed Assets		486	521	256	215

Note:

(i) Other fixed assets includes land of $65,000 (2006: $65,000).

11.JOINT VENTURES

NZOG group interests held at 30 June 2007, in significant unincorporated joint ventures established to explore, develop and produce petroleum:

	NOTE	PERCENTAGE INTEREST GROUP 2007 %	GROUP 2006 %	PARENT 2007 %	PARENT 2006 %
Licence - Field/Prospect Name					
PML 38146 - Kupe		15.0	15.0	-	-
PMP 38158 - Tui		12.5	12.5	-	-
PEP 38484 - Taitapa	(i)	-	100.0	-	-
PEP 38483 - Hector		18.9	18.9	-	-
PEP 38483 - Hector South Sub Block		12.5	12.5	-	-
PEP 38729 - Felix		75.0	75.0	-	-
PEP 38499 - Toke	(ii)	12.5	-	-	-

The financial statements of all joint ventures are unaudited.

Notes:

(i) PMP 38158 was granted by the Ministry of Economic Development on 31 October 2005 over the Tui Oil Fields (and satellite prospects) contained in the former PEP 38460. A condition of approval was the relinquishment of the remainder of the former PEP 38460 exploration acreage apart from the Hector South Sub Block ("HSSB") which was appended to PEP 38483.

(ii) PEP 38499 was granted by the Ministry of Economic Development on 16 May 2007.

The contribution made by joint ventures to group results was to increase revenues by $834,000 (2006: $Nil) and expenses by $621,000 (2006: $797,000).

Included in the assets and liabilities of the NZOG group are the following joint venture assets and liabilities.

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current Assets				
Short term securities and cash deposits	5,034	2,574	-	-
Trade receivables	1,386	172	-	-
Field operation consumables	32	116	-	-
	6,452	2,862	-	-
Non-Current Assets				
Petroleum interests	110,374	44,879	-	-
	110,374	44,879	-	-
Total Assets	116,826	47,741	-	-
Current Liabilities				
Creditors	9,556	3,213	-	-
Total Liabilities	9,556	3,213	-	-
Net Assets Held in Joint Ventures	107,270	44,528	-	-

12. PETROLEUM AND COAL INTERESTS

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Carrying Value of Petroleum and Coal Exploration, Evaluation and Development Expenditure					
Accumulated expenditure brought forward		90,266	37,994	-	-
Expenditure capitalised during the year:					
Petroleum mining licence - Kupe PML38146	(i)	33,242	6,446	-	-
Petroleum mining permit - Tui PMP38158	(i)	35,934	18,016	-	-
Petroleum exploration permits	(ii)	2,425	573	-	-
Coal mining licence - Pike River MP41453	(iii)	55,222	28,078	-	-
Charged to operating surplus		(4,431)	(841)	-	-
Movement in capitalised expenditure for the period		122,392	52,272	-	-
Total Accumulated Exploration and Evaluation expenditure carried forward		212,658	90,266	-	-

Notes:

(i) Petroleum exploration, evaluation and development costs are carried forward in respect of the Kupe project (PML38146) and Tui project (PMP38158). The actual amount recoverable is dependent upon a number of factors such as the level of petroleum reserves, estimates of future petroleum sale prices, operating costs and capital expenditures. The directors believe that accumulated petroleum exploration, evaluation and development expenditure is recoverable through these projects proceeding to development.

(ii) Expenditure in relation to Petroleum Exploration Permits is net of amounts written off.

(iii) Coal development expenditure relates to partly owned subsidiary PRCL. The amount carried in the financial statements is supported by financial studies and pricing of equity issued by PRCL to third party investors during the year ending 30 June 2007. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development and successful IPO.

(iv) Development expenditure includes interest costs of $1.6 million incurred in financing the development projects.

13. OTHER NON-CURRENT ASSETS

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Security deposits	5,536	2,622	-	-

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

14. CREDITORS

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Trade creditors, accruals and other creditors	26,254	9,788	1,454	1,345
Tax payable	521	-	-	-
	26,775	9,788	1,454	1,345

15. BORROWINGS

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current					
Borrowings	(i)	39,236	-	10,000	-
		39,236	-	10,000	-
Non-Current					
Borrowings	(i)	8,761	16,982	-	-
Convertible notes issued	(ii)	7,500	-	-	-
		16,261	16,982	-	-

Note:

(i) Borrowings for the NZOG group include:

- Term debt facility of US$27.5 million (2006: US$10.4 million) to fund the Tui development. At balance date the term debt facility was fully drawn.
- Short term revolving credit facility of $10.0 million (2006: $nil).
- Short term loans of $2.2 million (2006: $nil) from minority interest shareholders of PRCL.

(ii) Convertible notes have been issued by PRCL that mature on 31 December 2008.

16. PROVISIONS AND NON-CURRENT LIABILITIES

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Current					
Employee leave entitlements					
Opening balance		133	12	70	12
Net charge/(release) to operating surplus		(11)	121	(26)	58
Closing balance	(i)	122	133	44	70
Other		52	88	52	88
		174	221	96	158
Non-Current					
Provision for rehabilitation	(ii)	844	643	-	-
		844	643	-	-

Note:

(i) The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave, retirement and redundancy provisions.

(ii) Under an agreement with the Department of Conservation, Pike River is obliged to rehabilitate any affected land area to an approved condition once the Mine has been closed. This provision represents the costs expected to be incurred to rehabilitate any area where Mine development work has commenced.

17. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The group operates United States dollar bank accounts, for oil sales and certain permit interest sales proceeds, and loan accounts for borrowings to fund developments.

Notes to the Financial Statements (continued)

Commodity Price Risk

Commodity price risk is the risk that the group's sales revenue will be impacted by fluctuations in world commodity prices. The group is exposed to commodity prices through its mining interests. Bank facility agreements require borrowers to hedge a portion of their exposure to oil price risk. The premiums paid in relation to oil price hedging are included in petroleum and coal interest at a cost of $2.6 million (2006: $2.8 million). Net fair value of these off-balance sheet oil price options at balance date was a $373,000 loss.

Credit Risk

Financial instruments which potentially subject the group to credit risk consist primarily of short term securities and cash deposits, investments in listed resource companies, trade debtors and certain non current assets.

No collateral is required by the group to support financial instruments subject to credit risk. The group places its cash and short-term investments with and through financial institutions with the intention of limiting the amount of credit exposure to any one financial institution.

The group has no reason to believe credit losses will arise from any of the above financial instruments. However, the maximum amount of loss, which may possibly be realised, is the carrying value of the financial instrument.

Fair Values and Interest Rate Risk

At 30 June 2007, the fair value is considered to be materially the same as the carrying value for all financial assets and liabilities.

The interest rate spread and the contractual maturity dates of the group's financial assets and liabilities are as follows:

	NOTE	CARRYING VALUE 2007 $'000	MATURITY	INTEREST RATE
Assets				
Group				
New Zealand dollar bank and cash on deposit		21,851	At Call	8%
United States dollar bank and cash on deposit		13,463	At Call	5%
Receivables		2,100	n/a	n/a
Security deposits		5,536	various	5% to 8%
Parent				
New Zealand dollar bank and cash on deposit		12,390	At Call	8%
United States dollar bank and cash on deposit		6,026	At Call	5%
Receivables		530	n/a	n/a
Short term advances to PRCL		16,264	On Demand	13%
Convertible notes		3,500	Dec 2008	9%
Advances to wholly owned subsidiaries		33,110	On Demand	n/a
Liabilities				
Group				
Creditors		26,254	n/a	n/a
Revolving credit facility		10,000	6mths	9%
Tui borrowings	(i)	35,761	Mar 2013	various
Short term borrowings from minority interests		2,236	On Demand	13%
Convertible notes		7,500	Dec 2008	9%
Parent				
Creditors		1,454	n/a	n/a
Revolving credit facility		10,000	6mths	9%

Notes:

(i) At balance date NZOG has loan facilities of US$40 million available to fund the Tui development. At balance date the Term Debt facility of US$27.5 million was fully drawn (2006: US$10.4 million) and the Letter of Credit facility of US$12.5 million was also fully drawn (2006: US$8.75 million).

Pre-completion, this facility is secured over NZOG's assets other than those relating to PEP 38483 Hector, PML 38146 Kupe, Pike River Coal Limited and NZOG Nominees Limited.

18. TAXATION

New Zealand Oil & Gas Limited and wholly owned subsidiaries

New Zealand Oil & Gas Limited and wholly owned subsidiaries have a net future income tax benefit, including losses carried forward, at 30 June 2007 of $138,857,000 (2006 $76,893,000). These tax losses are not included as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

	NOTE	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
(i) Income tax expense					
Operating surplus before taxation		6,728	2,521	13,049	4,620
Income tax expense at 33%		2,220	832	4,306	1,525
Adjusted for tax effect of:					
Difference in foreign tax rates		(52)	-	-	-
Timing differences		(122)	-	-	-
Permanent differences - New Zealand		(1,647)	(720)	(4,306)	(1,525)
Income tax expense/(benefit) attributable to operating surplus		399	112	-	-
(ii) Gross losses not taken into account					
Gross losses with a future income tax benefit not recognised	(i), (ii)	138,857	76,893	14,508	23,061

Notes:

(i) The value of taxation losses not brought to account at 30 June 2007 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.

(ii) The taxation losses above include timing differences of $75,005,000 (2006: $20,034,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

19. RELATED PARTY DISCLOSURES

Related parties of the company include those entities identified in note 9 and 11 as subsidiaries, joint ventures and associates.

PRCL had a total outstanding balance payable to the parent of $20,224,000. The outstanding includes a short term advance of $16,264,000, convertible note of $3,500,000 and other payables of $460,000. During the year the parent has charged PRCL a total of $1,337,000 for managerial services, loan facility fees and interest costs. Interest charge on the loans and convertible note for the year was $214,000.

During the year the parent company charged at cost $196,000 (2006: $95,000) to joint ventures in relation to management and technical services provided.

All other material transactions with related parties during the year are set out in Notes 6, 9, 11, 12, 15, 20 and 22.

There are no other material balances due to or from related parties at 30 June 2007, except for, in regards to the parent company, inter-company borrowings with wholly owned subsidiary companies.

There are no additional related parties with whom material transactions have taken place.

20. EMPLOYEE SHARE OWNERSHIP PLAN

(a) Description of Employee Share Ownership Plan (ESOP)

NZOG Nominees Limited ('Nominees') held the following securities in the company in its capacity of plan company and trustee of the company's ESOP.

Other than the below option allocations, no NZOG securities held in the ESOP are subject to put or call options, nor are the NZOG securities used as security for borrowings by the NZOG group or any other person.

The NZOG Board's Remuneration Committee (which comprises only non-executive directors) nominates employees to participate in the ESOP and determines the numbers and exercise prices of options to be granted. Exercise prices are set at no less than market value at date of granting, to which an escalation factor generally applies.

	SHARES		2008 OPTIONS	
	2007 NUMBER 000	2006 NUMBER 000	2007 NUMBER 000	2006 NUMBER 000
NZOG Shares Allocated to Employees				
Allocated to employees				
Options to purchase shares/options	5,195	5,128	371	-
Savings shares/options	730	665	65	-
Partly paid or term paid shares	2,609	1,535	-	-
Unallocated	100	143	-	-
	8,634	7,471	436	-
As a percentrage of total reported capital	3.3%	3.4%		
Pan-Pacific Petroleum NL Shares Allocated to Employees				
Allocated to employees				
Options to purchase shares	3,814	4,604		
Savings shares	606	606		
Unallocated	-	835		
	4,420	6,045		

(b) Funding

NZOG group holds redeemable preference shares in Nominees at a book value of $2.3m (2006 $2.3m) which can be redeemed upon the company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

Funding made by employees to acquire saving shares amounts to $297,595 (2006: $297,595).

	GROUP 2007 $'000	GROUP 2006 $'000	PARENT 2007 $'000	PARENT 2006 $'000
Investment				
Investment in shares	2,280	2,280	2,280	2,280

(c) Control

Nominees is an associate company of NZOG. Voting rights in respect of NZOG shares vest in Nominees as to unallocated shares and to the respective employees in the case of allocated shares. The shareholders of Nominees hold the right to appoint the directors of Nominees.

(d) Financial Position and Performance of the ESOP

	CONSOLIDATED MARKET VALUES 2007 $'000	2006 $'000	CONSOLIDATED COSTS 2007 $'000	2006 $'000
Financial Position				
Equity				
Share capital			2,280	2,280
Retained deficit			(78)	(223)
			2,202	2,057
Assets				
Securities				
Allocated	6,912	6,039	2,246	1,525
Unallocated	109	146	43	665
	7,021	6,185	2,289	2,190
Less provision for diminution in value	-	-	(153)	(153)
	7,021	6,185	2,136	2,037
Bank	94	22	94	22
Total Assets	7,115	6,207	2,230	2,059
Less Liabilities				
Creditors	28	2	28	2
Net Assets	7,087	6,205	2,202	2,057
Financial Performance				
Interest income			4	4
Accounting and legal fees			10	30
Gain on sale of securities			162	192

The ESOP financial statements are unaudited at the date of these NZOG financial statements.

21. GEOGRAPHICAL SEGMENTS

The company operates in the petroleum and coal industries in New Zealand.

22. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Expenditure Commitments

As at 30 June 2007 the group had certain capital expenditure commitments in relation to the participation in the Tui, Kupe and Pike River developments.

As at 30 June 2007 the non-cancellable portion of PRCL's capital commitments was $18.4 million (2006: $5.6 million). These commitments relate to purchases of equipment required for Mine development.

The Kupe Formal Investment Decision was made in June 2006 and the NZOG group share of estimated total capital expenditure for the project is NZ$159 million.

Exploration Commitments

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

Operating Lease Commitments

Pike River Coal Limited has rental commitments for non-cancellable operating leases totaling $152,000, with $59,000 payable within a year, $45,000 between one and two years, $48,000 between two to five years and nil payable beyond five years.

Notes to the Financial Statements (continued)

General Commitments

NZOG has agreed that PRCL may request it to provide equity funding or other financial support of up to $25 million to PRCL to fund the mine development to first coal on usual and reasonable arms' length terms and conditions, subject to PRCL having expended the $85 million IPO proceeds on mine development. This funding will only become available after 1 January 2008.

Contingent Liabilities

PRCL has provided an indemnity of approximately $2.2 million under an agreement dated 22 December 2006 in relation to the construction of vessels required to establish a coal transport chain which would be payable if the company did not proceed with the construction of the vessels under contract.

PRCL has entered into agreements with District Councils for the upgrade of roads that may be used by PRCL to transport coal. As at 30 June 2007 a contingent liability of $160,000 existed in relation to roading upgrade agreements for low priority work on roads that may not be required.

23. EARNINGS PER SHARE

	GROUP 30 JUNE 2007	GROUP 30 JUNE 2006
Basic and diluted earnings cents per share	2.7	1.0
Weighted average number of ordinary shares outstanding during the year used in the calculation	242,526,120	214,227,892

24. INTERNATIONAL FINANCIAL REPORTING STANDARDS

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

NZOG intends to implement NZ IFRS in its annual financial statements for the year ending 30 June 2008. In complying with NZ IFRS for the first time, NZOG will restate amounts previously reported under current New Zealand accounting standards (NZ GAAP) using NZ IFRS. This requires a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively and mainly against retained earnings at that date. The amounts/transactions incurred during the year ending 30 June 2007 will also be restated and will impact the income statement and balance sheet for that period.

Transition Management

A conversion project involving professional advisors and finance staff has been established. The project team is:

- assessing the impact of changes in financial reporting standards on NZOG's financial reporting and other related activities;
- designing and implementing processes to deliver financial reporting under NZ IFRS; and
- dealing with any related business impacts.

This project is largely complete and NZOG expects to be in a position to comply with the requirements of NZ IFRS for the period ending 31 December 2007, being the first period of published financial statements under NZ IFRS.

Impact on Transition to NZ IFRS

The purpose of this disclosure is to highlight the expected impact to NZOG as a result of transition from current policies to NZ IFRS based on the standards that exist at the date of issue of these financial statements. This note only provides a summary of the significant potential impacts resulting from transition to NZ IFRS and should not be taken as an exhaustive list of all the differences between existing NZ GAAP and NZ IFRS. NZ IFRS 1 also allows a number of exemptions to assist in the transition to reporting under NZ IFRS. The explanatory comments below include details of the NZ IFRS 1 treatments adopted.

The estimated impact of transition to NZ IFRS from existing NZ GAAP is set out below. The first table details the estimated impact on Equity, Total Liabilities and Total Assets as at the date of transition. The second table details the estimated impact of the restatement as at 30 June 2007 on the group Balance Sheet and also the estimated impact on the group Income Statement for the year ended 30 June 2007.

It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

Notes to the Financial Statements (continued)

Estimated Impact on New Zealand Oil & Gas Limited's Equity, Total Liabilities and Total Assets on transition to NZ IFRS on 1 July 2006:

	CAPITAL $M	RESERVES $M	RETAINED EARNINGS $M	MINORITY INTEREST $M	TOTAL EQUITY $M	TOTAL LIABILITIES $M	TOTAL ASSETS $M
Total reported under NZ GAAP	112	3	(14)	38	139	28	167
NZ IFRS adjustments:							
1. Deferred tax	-	-	9	-	9	-	9
2. Restatement of investment in Joint Ventures	-	-	-	-	-	(3)	(3)
3. Record Fair Value of investment in Resource Investments	-	5	-	-	5	-	5
4. Restatement of Asset Revaluation Reserve	-	(3)	4	-	1	-	1
Total NZ IFRS adjustments	-	2	13	-	15	(3)	12
Restated totals under NZ IFRS at 1 July 2006	112	5	(1)	38	154	25	179

Estimated Impact on New Zealand Oil & Gas Limited's Equity, Total Liabilities, Total Assets and Income of Transition to NZ IFRS at 30 June 2007:

	EBIT $M	NET INCOME $M	TOTAL EQUITY $M	TOTAL LIABILITIES $M	TOTAL ASSETS $M
Total reported under NZ GAAP	5	6	183	83	266
NZ IFRS adjustments:					
1. Deferred tax	-	3	12	-	12
2. Restatement of investment in Joint Ventures	-	-	-	(9)	(9)
3. Record Fair Value of investment in Resource Investments	-	-	-	-	-
4. Restatement of Asset Revaluation Reserve	-	-	1	-	1
Total NZ IFRS adjustments	-	3	13	(9)	4
Restated totals under NZ IFRS at 30 June 2007	5	9	196	74	270

Changes in accounting policies on transition to NZ IFRS

1. Deferred Tax

On transition to NZ IFRS deferred tax is provided using the balance sheet approach rather than the income statement approach currently applied. The balance sheet approach provides for all temporary differences between the carrying amount of assets and liabilities for accounting and tax purposes. Deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity or as part of a business combination.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Any deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2. Restatement of investment in Joint Ventures

Joint Ventures are accounted using the proportionate method of consolidation under NZ IFRS when there is "Joint Control". Joint control is where there is the contractually agreed sharing of control over an economic activity, and exists only when strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. Where there is no Joint Control it is anticipated that the interest in the joint venture will be accounted for as an available-for-sale investment, under NZIAS 39, and will not be proportionately consolidated. Available-for-sale assets are recorded at fair value and any changes in fair values are recorded in equity (Asset revaluation reserve).

The company will continue to monitor industry practice in regard to recognition of investments in joint ventures.

3. Record Fair Value of investment in Resource Investments

On transition to NZ IFRS the investment in Resource Investments should be classified as an available-for-sale financial asset, which will be measured at fair value. Changes in fair value are recognised as a movement in the Asset Revaluation Reserve. Subsequent disposal of the Resource Investment will result in the change in fair value, previously recognised in equity, being recycled through to the profit and loss.

4. Restatement of Asset Revaluation Reserve

On transition to NZ IFRS NZOG will revise the asset revaluation reserve for treatment to meet the criteria required under NZ IFRS.

5. Financial Instruments

Accounting for financial instruments under NZ IFRS involves changes to NZOG's current policies. All derivative contracts will be carried at fair value on NZOG's balance sheet. If a derivative contract qualifies for cash flow hedge accounting, the effective portion of the fair value movement will be taken to a reserve within equity. All other changes in fair value are recognised immediately in the income statement.

25. EVENTS SUBSEQUENT TO BALANCE DATE

(i) IPO of Pike River Coal Limited

On the 20 July 2007 the subsidiary company of New Zealand Oil & Gas Limited listed on the NZSX and ASX after raising the $85 million from the Initial Public Offer (IPO). With the shares issued under the IPO the group investment in PRCL was diluted to 31% from 54% at balance date. The dilution of the group investment in PRCL means that subsequent to balance date the investment in PRCL will change from a subsidiary to an associate company.

(ii) Tui First Oil

The first oil to flow for Tui was achieved on 31 July 2007, with the first shipment (291,000/bbls total; NZOG share 12.5%) sold to buyers in Australia and was lifted on 18 August 2007.

(iii) Exploration drilling of Hector

The Hector-1 exploration well was drilled in August 2007 and was found to have no significant hydrocarbons and was plugged and abandoned on 14 August 2007. The investment in Hector by the company of $1.2 million to balance date was written off in the current financial year due to this drilling result. The company's share of the remaining costs incurred in drilling the well is estimated to be $5 million, which will be expensed in the 2008 financial year.

(iv) Tui Reserves upgrade

A preliminary post-drilling reserves review by the Tui project operator AWE indicates that the proved and probable ("2P") developed reserves for the project are 32.0 million barrels of recoverable oil. This compares to the 27.9 million barrels of undeveloped reserves reported prior to drilling the development wells and represents an upgrade of around 15%.

Audit report

To the shareholders of New Zealand Oil & Gas Limited

We have audited the financial statements on pages 21 to 41. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2007. This information is stated in accordance with the accounting policies set out on pages 25 to 28.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgments made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation, preparation of a report included in an initial public offering, international financial reporting standards and other assurance services. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 21 to 41:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2007 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 29 August 2007 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

Corporate Governance Statement

The board of New Zealand Oil & Gas Limited is committed to good corporate governance practice. The board operates a number of policies aimed at maintaining its high standards, in addition to ensuring compliance with all relevant laws and regulations, and the NZX and ASX Listing Rules.

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 as follows.

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 persons ordinarily resident in New Zealand. Each year one-third of the directors, other than the managing director, must retire by rotation. If eligible each retiring director may offer themselves for re-election.

The board has determined that Prof R F Meyer, Mr P G Foley, Mr S J Rawson and Mr D R Scoffham are independent directors.

DIRECTOR	POSITION	EXPERTISE
Mr R A Radford ACA	Chairman	Resource company management
Prof R F Meyer ONZM, BE, PhD, DistFIPENZ	Deputy chairman (independent)	Engineering and energy
Mr P G Foley BCA, LLB	(independent)	Legal
Mr S J Rawson BSc, MSc	(independent)	Energy and trading
Mr D J Salisbury BCA, LLB	CEO and Managing Director	Worldwide oil & gas exploration
Mr D R Scoffham MA, MSc	(independent)	Worldwide oil & gas exploration

Each director has the right to seek independent professional advice in relation to matters arising in the conduct of his duties, at the company's expense, subject to prior approval of the chairman of the audit committee, which is not to be unreasonably withheld.

Because of the compact size of the board there is no formally constituted nomination committee. The board as a whole undertakes the responsibility for the appointment of directors, benefiting from the contribution of all its members in discussing the need for and identifying any new candidates for the board. The board aims to have a reasonable diversity of backgrounds and skills within its ranks as is relevant to the nature of the company's activities, and from time to time reviews its committees and their charters.

The board evaluates its effectiveness as a whole, and the performance and contributions of its individuals and its committees as to attendance, preparedness, participation, and candour, on an annual basis. The board has regular meetings, scheduled on a monthly basis, and holds other meetings as required.

Responsibilities of the Board

The board operates under the powers provided in the charter, the company's constitution, the Companies Act 1993, and generally by law.

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;
- evaluating the performance of the chief executive;
- setting broad remuneration policy including approving allocations under the company's employee share ownership plan;
- reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- 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; and
- overall corporate governance of the consolidated entity.

The board delegates authority to the CEO and senior management to implement strategies and carry out the day to day operations of the business. The board has delegated limits of authority which define matters delegated to management and those that require board approval. The delegated authorities set limits to financial and other decision making, and are monitored by the board through their audit function.

The board has overall responsibility for the company's system of risk management and internal control, and has established procedures designed to provide effective control within the management and reporting structure. Management representations with respect to half-year and annual financial reporting provide accountability on disclosures and financial results.

The board has established several formal policies and procedures for management and compliance, which include:

- Securities Trading policy
- Funds Investment policy
- Derivatives and Commodity Trading and Hedging policies
- Health, Safety and Environment policy
- Delegated Authorities manual
- Whistleblower policy

These policies are reviewed on a regular basis. The board may establish other policies and practices to ensure it fulfills its functions and remains an effective decision making body.

Board Committees

The board has two formally constituted committees to provide specialist assistance with defined aspects of governance; the audit committee and the remuneration committee. Each committee is comprised of three non-executive directors and has a written charter setting out its respective roles and responsibilities.

The audit committee is required to contain one member with an accounting or financial background. The board has determined that Mr P G Foley has the requisite financial background for this requirement.

The members of the audit committee are Prof. R F Meyer (chairman), Mr D R Scoffham, and Mr P G Foley. The committee is responsible to the board for overseeing the financial control, financial reporting, and audit practices of the company. Meetings are held at least twice a year, and at the discretion of the committee the external auditors, the chief executive, and other senior executives attend these meetings.

The members of the remuneration committee are Prof. R F Meyer (chairman), Mr P G Foley, and Mr S J Rawson. Meetings are held at least twice a year. The committee is responsible to the board for recommending the remuneration policies and packages for the chief executive and senior executives, including allocations under the employee share ownership plan and amendments to plan rules. The committee operates independently of management.

The audit committee and remuneration committee charters setting out roles and responsibilities are available on the company's website at www.nzog.com

Shareholder Reporting

The company complies with the continuous disclosure requirements and all other listing requirements of the NZX and ASX relating to shareholder reporting which enables the company to ensure high quality and uniform disclosure of market sensitive information. The company provides security holders with interim and annual reports, which are also posted on the company's website. Shareholders and interested parties can subscribe to enquiries@nzog.com to receive the company's market announcements by email.

Conduct

Compliance with legislative requirements and acting with a high level of integrity has always been expected of all directors and employees. The company has formalised its policy as a code of business conduct and ethics. The code records the existing high standards of ethical conduct which all directors and employees are to comply with, and addresses such matters as:

- conflicts of interest
- corporate opportunities
- confidentiality, receipt and use of corporate information
- fair dealing
- protection of and proper use of company assets
- compliance with laws and regulations
- a general obligation to act honestly and in the best interests of the company as required by law
- encouraging the reporting of unlawful or unethical behaviour.

The code is available on the company's website www.nzog.com

The company also has a Whistleblower policy on the making and handling of complaints relating to business and personal ethics. This policy aims to encourage and enable employees and others to raise serious concerns for resolution, and to facilitate impartial investigation of any serious wrongdoing. The policy sets out the company procedures for receiving and dealing with such disclosures and complaints.

The company has a Securities Trading policy which sets out procedures as to when and how an employee or director can deal in company securities. This policy is consistent with the Securities Markets Act and its insider trading procedures and complies with the NZX and ASX rules. The board ensures that this policy is up to date and compliant at all times with any changes to the law and to NZX and ASX rules.

The company maintains an interests register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving directors.

Health, Safety and Environment Policy

The company's board, management and employees are committed to providing a safe and healthy workplace and environment for all employees, authorised visitors and general public through the company's health and safety policy. The policy operates:

- through competent engineering practice, training, risk identification, assessment and control processes. These enable the company to address hazard, incident and injury prevention and conservation of the environment in respect of projects under the company's management;
- by ensuring that appropriate resources are made available to comply with all relevant legislation to enable safety in design, safe systems and places of work are maintained to high standards and that all reasonable steps are taken to ensure no individual or the environment is placed in a situation of endangerment;
- by emphasising that a safe environment is the individual and shared responsibility of the company and all its employees;

This OSH&E management policy is based on a commitment that the well-being of all associated personnel is a major consideration of all operations. Health, safety and the environment are key priorities for the company's board, management and staff.

Independent Directors

The board has determined in terms of NZX listing rules that as at 30 June 2007 Prof. R F Meyer, Mr P G Foley, Mr S J Rawson and Mr D R Scoffham are independent directors; and that Mr R A Radford and Mr D J Salisbury are not independent directors.

Corporate Governance Best Practice Codes

The company complies with the NZX and ASX Corporate Governance Best Practice recommendations, except in relation to having a Board Nominations Committee and directors being encouraged to take part of their remuneration by way of equity. Details are contained in the company's corporate governance statement available at www.nzog.com

Shareholder Information

TOP 20 SHAREHOLDERS ON THE REGISTER AS AT 10 AUGUST 2007

NAME OF SHAREHOLDER	SHAREHOLDING	% OF REPORTED CAPITAL*
Accident Compensation Corporation	12,181,684	4.76
Resources Trust Limited	11,271,008	4.40
National Nominees New Zealand Limited	8,118,144	3.17
HSBC Nominees (New Zealand) Limited	7,442,781	2.91
HSBC Nominees (NZ) Limited	6,082,639	2.38
NZOG Nominees Limited	5,295,000	2.07
Sik-On Chow	5,000,000	1.95
ANZ Nominees Limited	4,773,939	1.86
Macquarie Equities Custodians Limited	3,260,100	1.27
New Plymouth District Council	3,005,220	1.17
Exploration Capital Partners 2006 Limited Partnership	3,000,000	1.17
FNZ Custodians Limited	2,893,907	1.13
Kum Hing So	2,400,000	0.94
Citibank Nominees (New Zealand) Limited	2,099,737	0.82
C E Boreham & D P Boreham	1,899,750	0.74
Leveraged Equities Finance Limited	1,746,500	0.68
A G Loudon	1,536,760	0.60
Chung King Tan	1,518,000	0.56
Investment Custodial Service Limited	1,427,751	0.56
R A Boas	1,250,000	0.49
Held in Treasury:		
New Zealand Oil & Gas Limited	5,864,515	

* Reported capital represents shares held by the public and therefore excludes 5,864,515 shares held by NZOG as treasury stock. In the above table, the holdings of New Zealand Central Securities Depository Limited have been reallocated to its applicable members.

TOP 20 OPTION HOLDERS ON THE REGISTER AS AT 10 AUGUST 2007

NAME OF OPTION HOLDER	OPTIONS	% OF 2008 OPTIONS ON ISSUE
Accident Compensation Corporation	4,905,672	3.53
R A Radford	3,084,874	2.22
HSBC Nominees (NZ) Limited	3,049,044	2.20
C B Kidson & Kidson Construction Limited	3,020,000	2.18
Exploration Capital Partners 2006	3,000,000	2.16
FNZ Custodians Limited	2,158,706	1.56
K F Tse & L N L T Chan	1,900,000	1.37
Macquarie Equities Custodians Limited	1,735,767	1.25
HSBC Nominees (New Zealand) Limited	1,284,735	0.93
ASB Nominees Limited	1,199,000	0.86
Resources Trust Limited	1,106,832	0.80
R A Boas	1,082,500	0.78
M S Campbell	1,050,000	0.76
C E Boreham & D P Boreham	1,040,008	0.75
Blumau Finance Limited	1,023,545	0.74
M Chan	1,003,400	0.72
A G Loudon	1,000,000	0.72
J Campbell	900,000	0.65
F H Mephan	834,518	0.60
P F M Belt & A M C Belt	828,328	0.60

Distribution Of Listed Holdings

Ordinary Shares as at 10 August 2007

HOLDING RANGE	HOLDERS	HOLDER %	QUANTITY	QUANTITY %
1 to 500	1039	8.65	447,135	0.17
501 to 1,000	1812	15.10	1,513,993	0.57
1,001 to 5,000	4744	39.50	12,510,272	4.78
5,001 to 10,000	1749	14.56	13,532,268	5.17
10,001 to 100,000	2371	19.74	67,935,672	25.94
100,001 plus	294	2.45	165,946,318	63.37
Total	12009	100.00	261,885,658	100.00

A minimum holding is 200 NZOG shares. At 10 August 2007 there were 255 shareholders with less than 200 shares.

2008 Options as at 10 August 2007

HOLDING RANGE	HOLDERS	HOLDER %	QUANTITY	QUANTITY %
1 to 500	2736	25.23	912,542	0.66
501 to 1,000	1926	17.76	1,485,627	1.07
1,001 to 5,000	3722	34.32	9,221,695	6.64
5,001 to 10,000	931	8.59	6,887,846	4.96
10,001 to 100,000	1322	12.19	39,296,141	28.30
100,001 and over	207	1.91	81,034,002	58.37
Total	10844	100.00	138,837,853	100.00

Securities On Issue

At 30 June 2007 New Zealand Oil & Gas Limited had the following securities on issue:

Reported Capital	256,021,068
Treasury Stock	5,864,515
Total Ordinary Shares on issue	261,885,583
2008 Listed Options	138,837,816
Unlisted 2007 Options	150,000
Unlisted Partly Paid Shares	2,608,500

Voting Rights

Article 26 of the company's constitution provides that on a show of hands every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each ordinary share held. Option holders do not have a vote unless their options are exercised and become ordinary shares.

On-Market Buy-Back

The company is not involved in an on-market buy-back.

Trading Statistics

The company's securities are officially quoted on the New Zealand Stock Exchange and the Australian Stock Exchange.

Trading – 12 Months Ended 30 June 2007

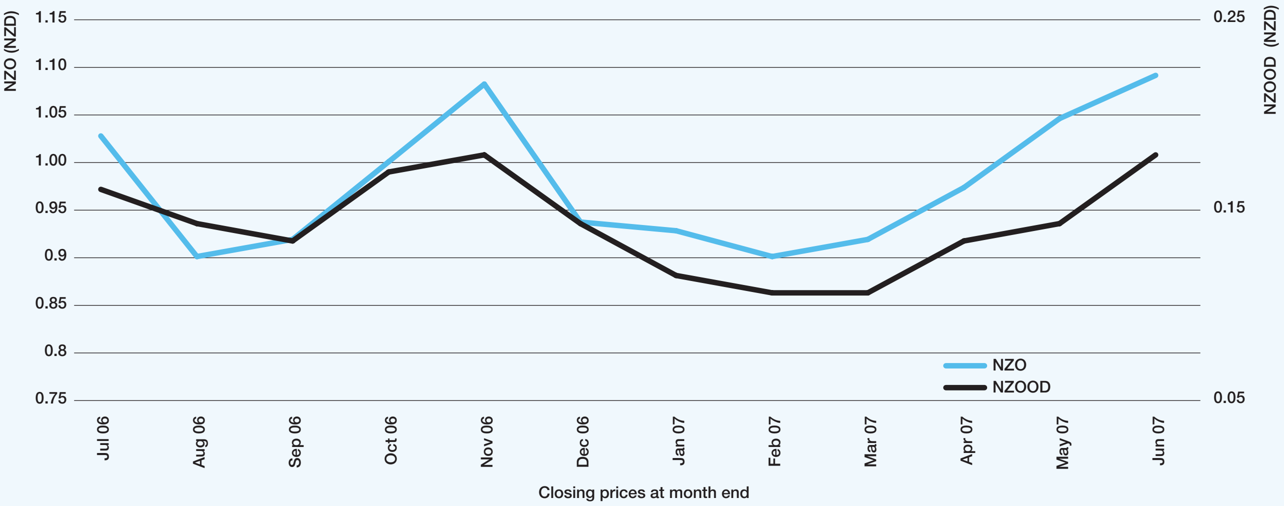
Ordinary Shares: Trading Code NZSX: NZO and ASX: NZO

	HIGH	LOW
NZX:	NZ$1.14	NZ$0.86
ASX:	A$1.03	A$0.74
Combined Volume Shares		56,534,700

2008 Options: Trading Code NZSX: NZOOD and ASX: NZOO

	HIGH	LOW
NZX:	NZ$0.19	NZ$0.09
ASX:	A$0.23	A$0.08
Combined Volume Options		50,774,700

Price history for NZOG share and options for FYE 2007 on NZSX



Statutory and Other Information

Directors' Remuneration

The total remuneration and other benefits to directors for services to all group companies (including payments made by partly owned and wholly owned subsidiary companies) in all capacities during the year ended 30 June 2007 was $1,145,231 being to or in respect of Messrs R A Radford $882,731; S J Rawson $35,000; P G Foley $35,000; Prof. R F Meyer $45,000; D J Salisbury $112,500 and D R Scoffham $35,000.

Employees' Remuneration

During the year ended 30 June 2007, 11 group employees (not including directors) received remuneration (including payments made by partly owned and wholly owned subsidiary companies) of at least $100,000 as follows:

EMPLOYEES	NZOG	PRCL
$100,001 - $110,000	-	4
$110,001 - $120,000	1	-
$150,001 - $160,000	2	-
$170,001 - $180,000	1	1
$290,001 - $300,000	-	1
$300,001 - $310,000	1	-

Directors' Securities Interests And Dealings

The interests of directors in equity securities of the company at 30 June 2007 were:

Mr R A Radford in respect of 6,330,000 shares and 3,307,452 options.

Mr P G Foley in respect of 55,000 shares and 30,000 options.

Mr D J Salisbury in respect of 500,000 shares.

Mr D R Scoffham in respect of 110,000 shares and 60,000 options.

Acquisition/Disposition Of Relevant Interests In Securities Of The Company

During the year Mr Foley as a shareholder took up a pro-rata rights offer to subscribe for 5,000 ordinary shares and 5,000 options. Mr Scoffham as a shareholder took up a pro-rata rights offer to subscribe for 10,000 ordinary shares and 10,000 options. Mr Radford as a shareholder took up a pro-rata rights offer to subscribe for 104,920 ordinary shares and 104,920 options and was allocated 200,000 partly paid shares under the Employee Share Ownership Plan (ESOP). Mr Salisbury subscribed for 500,000 partly paid shares under the ESOP upon commencement of his employment in April 2007.

Transactions In Which Directors Were Interested

There were no transactions in which directors were interested.

Interest Disclosures

There were no new disclosures of interest by directors entered into the Interests Register during the year ended 30 June 2007.

Directors' & 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.

Substantial Shareholders

As at 10 August 2007 the company held no current Substantial Shareholder notices.

Substantial shareholder notices are received pursuant to the Securities Markets Act 1988. Under the provisions of that Act substantial shareholders are only required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities; and more than one party can hold a relevant interest in the same shares. For those reasons the number of shares stated in substantial shareholder notices can differ from the numbers showing in the share register.

NZOG Group

Within this annual report reference to NZOG, NZ Oil & Gas and the company are to be read as inclusive of the subsidiary companies within the consolidated group.

Energy Values

1,000 standard cubic feet of gas yields approximately 1 gigajoule of heat

1 petajoule (PJ) = 1,000,000 gigajoules (GJ) = approximately 1 billion cubic feet (BCF)

1 gigajoule = 947,817 British Thermal Units (BTU)

1 kilotonne (kt) = 1000 tonnes

Gas energy values vary depending on the carbon dioxide, other inert gas and C2+ content of the gas, and therefore are not fixed. Energy levels for Taranaki gas are generally around the above mentioned levels. For field reserve estimates where the gas quality is known, reserves can be accurately stated in PJ. For prospects where the gas quality is not known, the BCF volume is estimated and the above assumptions are applied in order to use consistent units of PJ. Calorific value is the basis for gas sales in dollars per gigajoule or GJ.

Currency

All amounts are New Zealand dollars unless otherwise specified. The NZD/USD exchange rate was 0.7690 as at 30 June 2007.

Target Production Dates and Construction Costs

Oil, gas and coal developments are subject to potential delays and/or increased costs due to their nature and the overheated construction market currently being experienced by all participants.

Corporate Directory

For company information contact the company:
Toll free 0800 000 594 (within New Zealand)

Shareholders are encouraged to receive company announcements directly via the internet at:
www.nzog.com

Directors

R A Radford
Chairman
ACA

R F Meyer
Deputy Chairman
ONZM, BE, PhD, DistFIPENZ

P G Foley
BCA, LLB

S J Rawson
BSc, MSc

D J Salisbury
Managing Director
BCA, LLB

D R Scoffham
MA, MSc

Management

David Salisbury
CEO & Managing Director
BCA LLB

Helen Mackay
General Counsel
BCA LLB

Kaye Pailthorpe
Office Manager

Jonathan Salo
Exploration Manager
PhD, BA, BASc

Andrew Stewart
Chief Financial Officer
MBA BCA BA CA(NZ)

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Auditors

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New Zealand

Shareholder Information

For information on number of shares or options held, holding statements and changes of address contact the registrars:

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