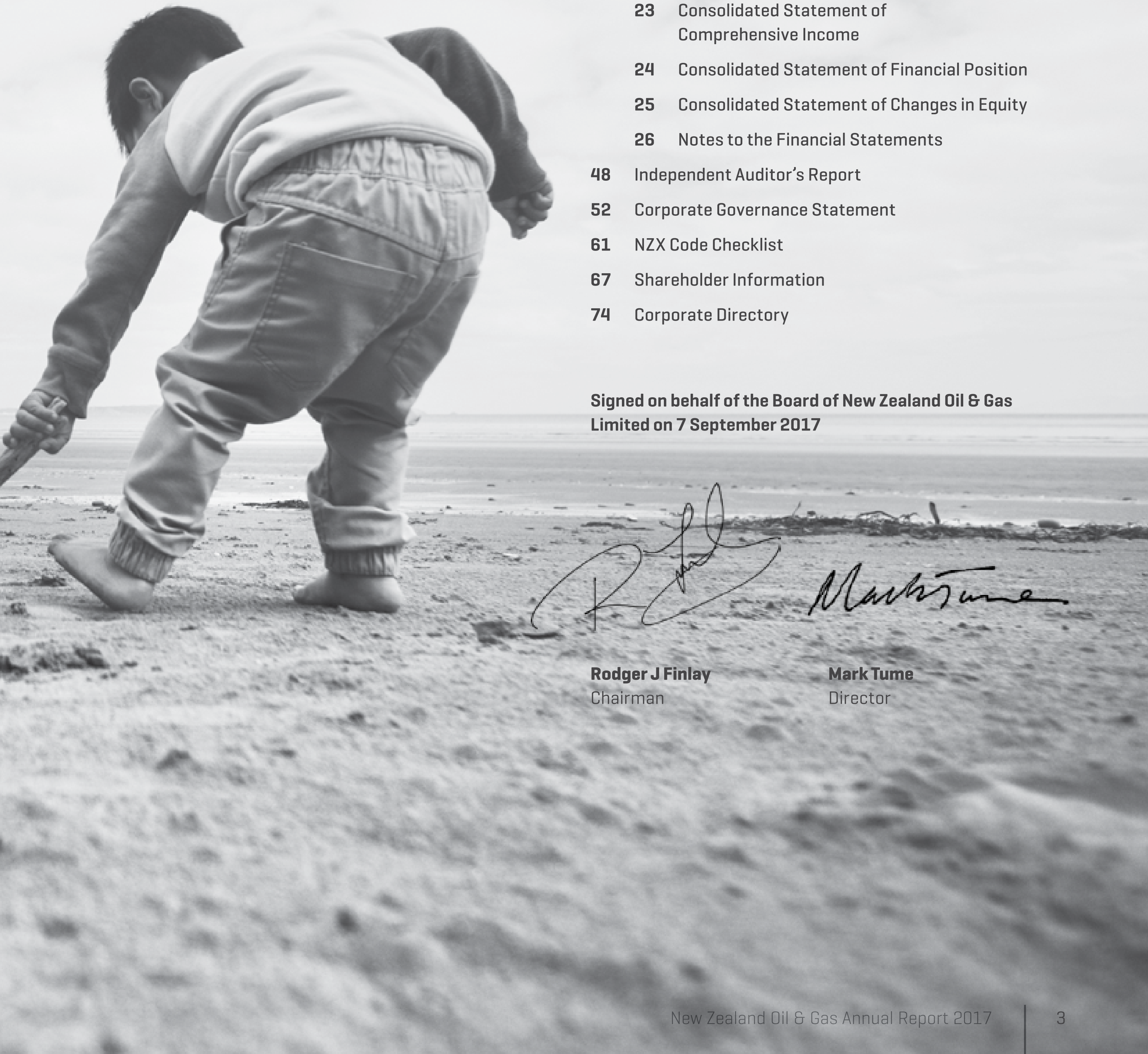
ANNUAL REPORT 2017

NEW ZEALAND OIL & GAS

New Zealand Oil & Gas Limited Annual Report



Signed on behalf of the Board of New Zealand Oil & Gas Limited on 7 September 2017

Rodger J Finlay
Chairman

Mark Tume
Director

Chairman & CEO's Report

We are very pleased to report to you on a strong performance for your company this year, with a net profit after tax of more than $62 million attributable to the shareholders of the group compared to a loss of $29.8 million last year.

The standout result mainly reflects the sale of our Kupe asset, where we achieved considerable value – first by leveraging our sub-surface expertise to contribute to an upgrade in reserves, and then by being able to capture the value of the extra volumes in the sale price. We sold our Kupe interest for a sum that considerably exceeded the market's valuation at the time.

Our acquisition of Mitsui's 4 per cent of Kupe has yet to complete at time of writing because we are waiting for approvals from regulatory authorities, including the Overseas Investment Office. The transaction has an effective date of 1 January 2017, meaning that once the lengthy approvals process is finished we will never have been out of the asset economically.

The price we paid to acquire from Mitsui was fair and we now have a portfolio that has a better balance of investment risk, providing us with ongoing returns from an asset we know well and cash to enter new opportunities.

In addition to the pleasing outcome of the Kupe transaction, our attention to driving down costs and containing exploration expenses produced a strong result in an adverse environment for oil and gas companies.

Exploration and evaluation costs this year were about a third of the previous year.

Operating costs have been minimised, although the headline figure included one off items related to the Kupe sale, capital return, share buy backs and more.

Staff numbers are down to 15. The corporate head office has been moved to much-lower cost accommodation.

We have been carefully trimming the ship for the prevailing weather conditions, and as a result fully-imputed dividends can once again be distributed.

Throughout this period we have continued to maintain strong connections to local communities, even while we have exited assets, and our sustainability performance has improved. Sustainability reporting is now updated on the corporate website. We are proud to present highlights of our approach and support for our community in the following pages.

While this report was being prepared, the company received notice from Zeta Energy of its intention to make a partial takeover offer. Our intention in this process is to secure the best possible outcome for our shareholders.

The outcome of the process will determine the company's forward strategy.

At the time of writing the Board intended to use its cash reserves to acquire assets as the foundation for further growth and a future flow of dividends.

We have announced a dividend of 4 cents per share this year, which is sustained by the economic performance of our Kupe investment – demonstrating how further acquisitions can produce more future returns.

The team is diligently screening for further acquisitions that fit our profile and appetite. In particular, we are looking for assets that:

- we can acquire at value,
- that are suitable for our scale,
- with a preference for gas,
- in markets we understand.

There are good assets available that shareholders would not have the opportunity to access independently.

We believe the gas market in New Zealand is constrained, with very few wells being drilled, and price risks are on the upside – a classic commodity cycle. We see the same in other markets, including Australia and Indonesia.

Meanwhile our existing portfolio provides revenue to meet our much-reduced costs, while acquisitions and exploration will provide opportunities for growth - we have three potentially game-changing deepwater prospects in Barque, Toroa and Ironbark.

We continue to seek cash from our Indonesia portfolio. Following a review of prospects there we have re-focussed away from the lowest priority permits. We are looking to manage our cash to get the best results for shareholders from the assets that remain.

We are also looking to achieve more value from our investment in our ASX-listed Cue subsidiary. We said a year ago that we were looking for Cue to be a very different company in a year's time, and that has been brought about. Its exploration activity has been adjusted to the fiscal environment. Cue continues to seek farmin partners for its very large Ironbark prospect off West Australia's North West. It has production from its gas asset in Indonesia and Maari oil in New Zealand, and even with its lower cost structure we believe there are cost reductions to be achieved that will see its revenue begin to turn into cash for all shareholders.

Looking ahead, we expect the company this year to keep delivering returns for shareholders, keep costs low and continue to invest in new opportunities for growth.

Rodger J Finlay
Chairman

Andrew Jefferies
Chief Executive

Natural gas is clean, abundant and convenient.

The environmental benefit of natural gas is its status as an ideal energy source for the decades-long global transition to renewables.

We believe the world is transitioning to a lower carbon future. Natural gas is a crucial part of the transition. Gas makes renewable energy more viable by providing flexible, affordable, abundant and reliable support for energy demand that renewables can't meet efficiently.

Natural gas emits much less carbon than coal. It's a cleaner contributor to the energy mix.

Natural gas from New Zealand is much better for the world than alternative energy sources such as Canadian tar sands, Venezuelan bitumen or coal-bed methane from Australia.

Sustainability for us

Making a contribution

The energy we produce and the returns we earn help to improve the living standards of New Zealanders and our trading partners. We create value for our shareholders and generate royalties and taxes that help pay for essential social services.

We support initiatives in the community that make our environment cleaner and people healthier.

Operating safely, respecting people and our natural environment

In everything we do we try to be respectful of people, cultures and our natural environment. We are a values-driven, inclusive and ethical business. We are proud of what we do and transparent about how we go about our work.

Working closely with our community

We believe we all benefit from understanding others' perspectives. New Zealand Oil & Gas engages closely with communities where we are active. We maintain formal relationships and we interact with local views through community relationships.

Find out more at **communitypanel.org.nz**

Sustainability Reporting is updated on our website

We are keeping our printed materials as lean as we can, and keeping our sustainability reporting up to date.

You can find out all about our sustainability performance at:
www.nzog.com/sustainability/

Community Panel Feedback

From the Southern Community Panel Report Card 2017

"We found New Zealand Oil & Gas continued to build trust with the panel and to have open engagement. They have collaborated on funding decisions after a robust process."

"Engagement has been genuine and of a high quality."

"We would appreciate more information on the risks of the activities to assist us in assessing those. This is the issue I get asked about the most."

"We found New Zealand Oil & Gas to have responded well to the issue of capturing local benefits, and the responses have been meaningful and appreciated."

"It remains a question in my mind about whether enough is being done (by the company) in response to Climate Change."

Read the Southern Community Panel Report card: **communitypanel.org.nz**

Our Values

Pono me te Tika

INTEGRITY AND TRUST

We are honest, transparent and ethical. We respect the culture, values, law and regulations of the countries we operate in. We operate safely without harm to people or the environment.

How we did

In our 2016 Sustainability Report we noted we could do better by learning more about each individual iwi we have a relationship with. We continued our direct engagement with iwi, kanohi ki te kanohi where possible, including attending the launch at Kati Huriapa Runaka ki Puketeraki of the Runaka's 'Expectations for Oil and Gas Companies in East Otago' document. We met with Ngai Tahu to continue conversations around the relationship between a potential South Island gas resource, and the Iwi's climate change position.

It was a year when our commercial activity resulted in exiting our major assets, and as a result much of our engagement was low key.

How we could do better

Face-to-face engagement is important, even if sometimes we feel we don't have much to say. We want to find ways to keep our relationships going as we change our commercial activity.

Dr Chris McKeown, New Zealand Oil & Gas Vice President, Exploration and Production with Dr Katharina Ruckstuhl, Kāti Huirapa rūnaka ki Puketeraki and Southern Community Panel member.

Tangata Auaha

PEOPLE AND PASSION

We are inclusive, acting with consistency and respecting the opinions of others. We encourage, care for and motivate each other. We have fun and work with passion.

How we did

In our 2016 Sustainability Report we stated our aim to improve our diversity performance.

We made diversity a part of our business performance framework that helps determine management and staff incentives. We increased our diversity work plan to maintain momentum with diversity initiatives.

Our management team is now one-third female. We have joined Diversity Works New Zealand, and continue to benefit from the services they provide. Our move to a new office was the catalyst for change to work more flexibly. We provided car parking to support employees with child care arrangements, and moved to IT hardware that enabled greater flexibility in where we work – resulting in more employees being able to work from home. We have surveyed staff about workplace flexibility and family friendliness, to identify what we are doing well, and which barriers we need to address.

How we could do better

We intend to increase our support for diversity in our industry, in collaboration with our industry organisation, Pepanz. We can understand more about diverse recruitment into our industry and into our business.

DIVERSITY WORKS NZ

Te Reo Whakawhitiwhiti

COMMUNICATION

We foster active collaboration and understanding of others. We are open, transparent, and listen. We provide constructive feedback, and give feedback graciously. We put the big issues on the table so they can be resolved.

How we did

Our 2016 Sustainability Report suggested we could provide more information about our industry, expected outcomes, and benefits to the community. We have made good progress.

We receive annually a 'Letter of Expectations' from our community panel, and the panel provides us with transparent reporting against those expectations. We publish the report card on the Community Panel website (southern.communitypanel.org.nz).

We commissioned a regional economic impact assessment looking at the local, and regional implications of a commercial development of the Barque prospect off the South Canterbury coast.

See Material Issues 3 (Page 12).

How we could do better

The main questions we receive include the safety of our operations and the contribution we make to our local community. These are fair questions. We aim to deepen community understanding of how we are working safely, and how the community can benefit from our activity and have a say in it.

We believe we can do better at helping to promote understanding of the role of clean natural gas in the decades-long transition to renewable energy, and how natural gas is a lower carbon form of energy than other hydrocarbons.

Arumoni Hangai

COMMERCIAL FOCUS

We actively seek out opportunities. We develop mutually beneficial relationships with key stakeholders and partners. We develop and utilise our technical competencies.

How we did

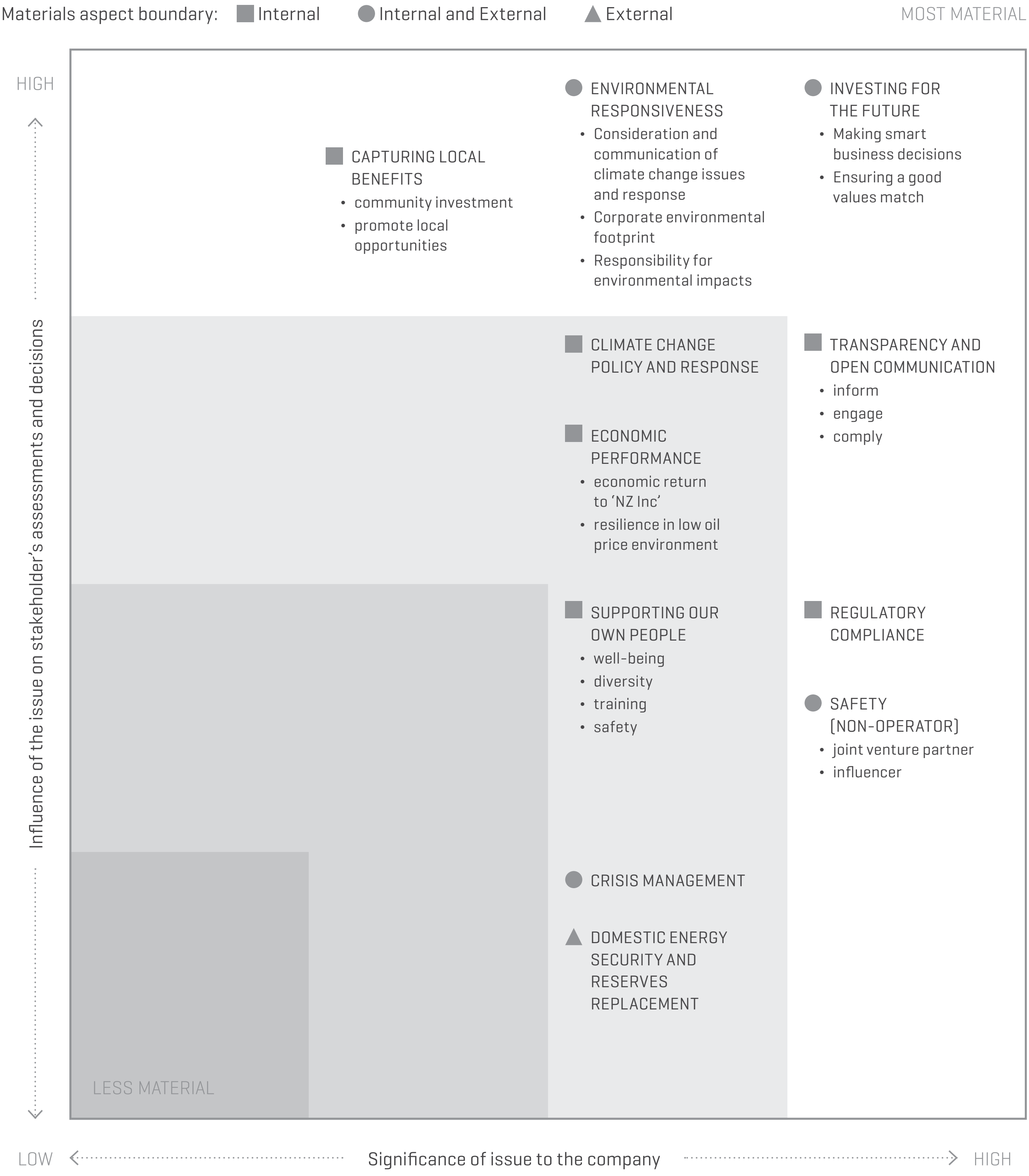
Last year we confirmed a commitment to keeping tight control on costs, and executing commercial transactions at value. We demonstrated this through the sale to Genesis Energy of our 15% holding in Kupe, and subsequent acquisition of 4% of Kupe at value. We have significantly reduced our operating costs, and have applied a similar lens to Cue Energy Limited, in which we hold a controlling share.

How we could do better

We aim to make new investments that create shareholder value by acquiring assets, with a preference for gas assets in markets we understand, at a scale and investment risk profile suitable for us.

Our priority is to find commercial partners who have the scale and expertise to drill a well in the exciting Barque prospect east of the South Island.

Materiality Matrix



How Materiality was Determined.

The materiality matrix is the result of engagement with a range of stakeholders and feedback from individuals and groups including: Shareholders, regulators, our community through community panels and relationship agreements, staff, industry organisations and partners, public issues expressed in media and direct engagement with Maori.

We gather feedback, identify issues, and assess the material impact on the company.

The same process was followed in producing the 2016 matrix.

The community panel discussed with us what had changed for them, and for us, since 2016.

Our assets are now very different, and associated activities are consequently lower impact.

However, feedback to us stresses that New Zealand Oil & Gas should maintain a high level of awareness and responsiveness to environmental issues.

Concern was also raised about how we ensure a good values match when we make investment decisions in future.

The materiality matrix has been changed since 2016 to reflect that feedback.

Summary Response to Material Issues

1. Investing for the future

Having significantly reduced our investment in physical assets since 2016, we are now positioned to seek commercial opportunities in New Zealand and overseas. We take into account environmental and social considerations. We are a values-based company, and it's important to us that we actively seek positive environmental, social and governance outcomes in our portfolio management. We ask questions about corporate social and environmental responsibility.

We also work to improve our business. This year we asked ourself how we would know if a supplier or partner was a high performer in diversity, environmental management and community awareness. We developed a new Sustainability Code of Practice for Partners and Suppliers. This gives our potential suppliers or partners opportunity to tell us what they do in the same way we enquire about safety performance.

2. Transparency and open communication

We often get feedback asking for clear information about our activity. Communities want to understand what impacts our activities have, what steps we take to manage risk and how the benefits will be felt.

We are proud of our activities and how we go about them, and we invest in open dialogue and relationships where honest discussions can take place and the big issues put on the table.

We hold regular meetings with the Southern community panel and we have formalised relationship agreements with several community interests that commit us to respectful engagement and to learning from each other.

In addition we engage directly with iwi, mana whenua and mana moana as appropriate in our areas of interest.

See *Our Values* for a discussion of how we did last year.

Summary Response to Material Issues

3. Capturing Local Benefits

Stakeholders described concerns about capturing local benefits. They felt that the local community bears some costs in development and want to know what the benefits to the community would be. We have advanced this issue over the past year with four distinct actions:

- We improved communication about the financial benefits the industry has brought to New Zealand through the royalty regime, and highlighted the economic impact the industry has made in Taranaki. The Pepanz website energymix.co.nz, and publications such as Venture Taranaki's The Wealth Beneath Our Feet demonstrate community benefits.
- We also looked at what more we could do as a company. We adopted a new corporate policy 'Capturing Local Economic Benefit'. This policy commits us to proactively identify business opportunities for local communities, and work with them to help meet supplier requirements.
- We also decided to commission a regional economic impact assessment of commercialising the Barque prospect (Clipper permit, off the Oamaru coast). The report was co-funded by New Zealand Trade and Enterprise and the Clipper joint venture partner, Beach Energy. It drew on data from Beca, PrimePort Timaru, Methanex, Coogee, Ravensdown, Fonterra and others.
- We continued to invest in locally supported, sustainable community projects. These are outlined in more detail in Supporting our Communities, page 13.

4. Managing Environmental Impacts

Last year's Sustainability Report included targets for this year: adopting measurable targets for environmental impact, and reporting progress in reducing the footprint of projects we are involved in. This reflected our assets at the time, but with the sale of our major assets the scope of issues we could influence had to be updated. Instead we turned our attention to our own corporate environmental impact. When we moved into new premises we selected sustainable materials in the fit-out, introduced improved recycling systems, and supported initiatives such as social enterprise catering for social events.

Supporting Local Communities

Dr Lisa Argilla with a recovering Yellow-eyed Penguin

Yellow-eyed Penguin Trust Wildlife Hospital

When we asked our Southern Community Panel to recommend environmental or conservation focussed organisations, their response was swift – the Yellow-eyed Penguin Trust.

The Trust's seasonal Wildlife Hospital service, based at Otago Polytech, was beginning its second season after a successful start. It provides local veterinary services to sick and injured birds. Our funding helped retain and extend the specialist Wildlife Hospital service for an additional nine weeks in 2017, and covered the cost of transport, consumables and other operational costs. The Wildlife Hospital has received a lot of local media coverage, building the business case for a permanent local vetcare service.

Patea Maori Club

Supporting Waitangi Day 2017 celebrations in South Taranaki – Paepae in the Park

New Zealand Oil & Gas provided funding support for the delivery of the 14th Paepae in the Park festival held in Patea, South Taranaki. This family-friendly music festival, held annually on Waitangi Day, gives local and regional musicians an opportunity to play alongside some of New Zealand's big names, including Katchafire, Nesian Mystic, and Ardijah. The festival is a highlight in the South Taranaki social calendar, and a local celebration of Waitangi Day. Our South Taranaki Community Panel endorsed the festival and we were pleased to be able to help with its delivery.

Giving a new lease of life to Waverley Maternity Services Home

We contributed to insulating and painting the historic Maternity Services Home in Waverley, South Taranaki. The community-owned building was the local maternity home until the mid-1980s. It is now used by health professionals on a permanent-casual basis, including podiatrists, osteopath, nurse clinics, maternity care, meals-on wheels, health clinics and other community uses. The building was in a poor state of repair, with the exterior badly in need of a paint, and the interior cold and run down. With our donation, the Trust has been able to repair and maintain the outside, and provide underfloor and ceiling insulation.

Supporting Local Communities

Restoration of Dog Island Motu Piu, south of Bluff

New Zealand Oil & Gas is proud to be one of the first funders of the Dog Island Motu Piu Charitable Trust as they embark on their mission as kaitiaki of the land, heritage and environment of Dog Island Motu Piu. Local knowledge brought to us by Southern Community Panel members, brought this project to our attention.

The Trust's mission is to reinstate the small island, located 6.5kms south of Bluff, as a conservation and eco-tourism attraction, restoring its heritage value (there is an operational lighthouse on the island), and infrastructure to support eco-tourism.

This project is all about collaboration, with strong involvement from Southland Iwi, DoC, local councils, Heritage NZ, maritime groups and local business.

We are assisting with the early stages of the Trust's 20 year vision, including funding for planting.

COSY HOMES

Insulating more than 110 homes in Southland, Otago and South Taranaki

More than 110 Southland, Otago and South Taranaki families with high health needs are enjoying warmer, cosier homes thanks to the support of the Southern and South Taranaki Community Panels, and funding from New Zealand Oil & Gas.

For the second year running, New Zealand Oil & Gas contributed funding to support healthy homes in Southland, Otago and South Taranaki. This contribution was administered by Warm Homes Trusts in those regions, and leveraged by them to access government funding, resulting in even more high health need homes being insulated.

Home insulation, and the impact of poor insulation on health outcomes, is an important social issue for our country. We are pleased that both the Southern and South Taranaki community panels promoted the issue as being locally important, and a good fit for our business to support. Improving heating efficiency is a key aspect of resource efficiency, which we look to promote in all we do.

New Zealand Oil & Gas Sustainability/Corporate Responsibility Strategy

We create value by exploring for and producing energy in New Zealand and offshore, and strive to deliver great commercial, social and environmental outcomes as we go.

Kaitiakitanga
Environmental Stewardship

- Managing our office footprint.
- Reducing emissions of our producing assets.
- Influencing our suppliers and partners.

Manakitanga and Whanaungatanga
Looking after our people

- Wellness support for our people.
- Diversity and inclusion.
- Safety performance.

Responsive to our Communities
Being a positive contributing member of communities where we are active

- Ongoing, proactive and transparent engagement.
- Engage on the key issues.
- Contribute to projects that matter to local communities.
- Promote local business opportunities, creating shared value where possible.

Governance and Value
Providing value to our shareholders and New Zealand Government

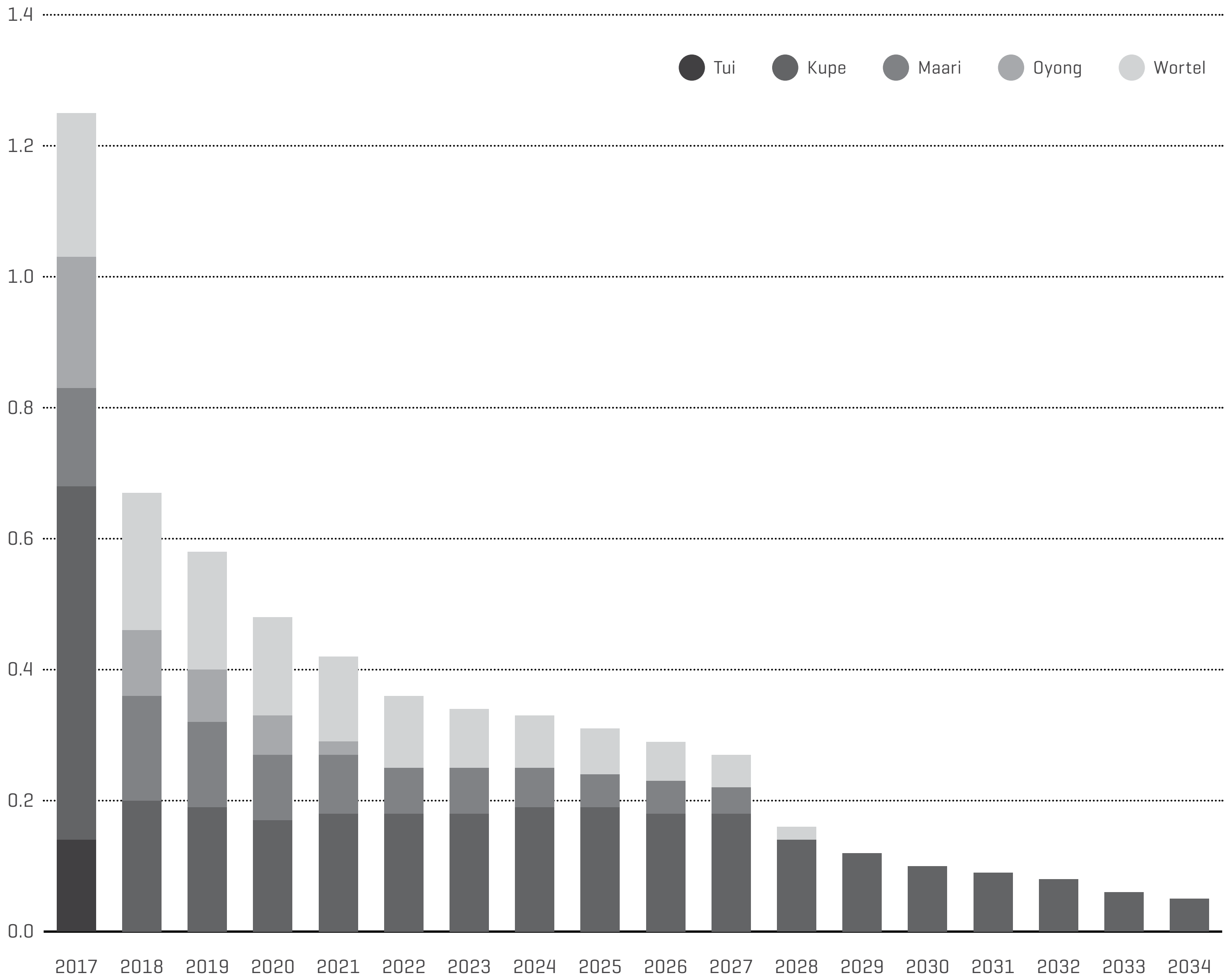
- Ethical business.
- Risk management.
- Regulatory compliance.
- Financial management.
- Meeting reporting requirements.

Outcomes

- We are a positive, contributing member of our communities, responsive to their needs.
- We operate with high standards of ethics, governance, behaviour.
- We deliver environment, commercial and social outcomes we can be proud of.

Reserves & Production

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



Production

New Zealand Oil & Gas share (net)	2017	2016
Tui (oil-bbls)*	142,117	377,575
Kupe (oil-bbls)*	115,832	206,769
Kupe (gas-tj)*	2,219	3,595
Kupe (LPG-tonnes)*	7,820	13,584
Maari (oil-bbls)	152,201	225,777
Sampang PSC (oil-bbls)	38,121	51,675
Sampang PSC (gas-tj)	2,350	3,057

* Tui asset sold from 1 January 2017. Kupe asset 15% interest to 1 January 2017 and then 4% estimated. Kupe acquisition has not yet completed.

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

Remaining Proven and Probable (2P) oil and gas reserves as at 30 June 2017

Geographic area	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (Kilotonnes)	Million Barrels of Oil Equivalent
New Zealand				
Maari*	0.82	-	-	0.82
Indonesia				
Sampang PSC*	0.03	8.64	-	1.41
Total	0.85	8.64	-	2.22

Some rounding. *Includes 100 per cent of Cue's reserves.

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

Indicative data on Kupe

On 18 May 2017 New Zealand Oil & Gas announced its intention to purchase Mitsui E&P Australia's 4% interest in Kupe. The sale and purchase agreement was signed on 6 July, following confirmation that an NZX related party rule had been waived and JV partner pre-emptive rights would not be exercised. At balance date the sale remained subject to regulatory approvals. The purchase of the Kupe interest has an effective economic date of 1 January 2017. The table below indicates New Zealand Oil & Gas calculations of Kupe 2P reserves that would be added to the company's reserves on completion of the purchase.

Geographic area	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (Kilotonnes)	Million Barrels of Oil Equivalent
Kupe 2P	0.37	11.27	47.56	2.60

Proved (1P) Reserves

Geographic area	Developed				Undeveloped				Total			
As at evaluation date 30/06/2017	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)
New Zealand												
Maari*	-	-	0.37	**0.37**	-	-	0.09	**0.09**	-	-	0.46	**0.46**
Indonesia												
Sampang PSC*	3.43	-	0.012	**0.56**	1.72	-	0.004	**0.28**	5.15	-	0.016	**0.83**

* Includes 100% of Cue interest.

Proved + Probable (2P) Reserves

Geographic area	Developed				Undeveloped				Total			
As at evaluation date 30/06/2017	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)	Gas (PJ)	LPG (kt)	Oil & Condensate (mmbb)	Total (mmboe)
New Zealand												
Maari*	-	-	0.69	**0.69**	-	-	0.13	**0.13**	-	-	0.82	**0.82**
Indonesia												
Sampang PSC*	5.99	-	0.02	**0.97**	2.65	-	0.01	**0.43**	8.64	-	0.03	**1.41**

* Includes 100% of Cue interest.

PJ - Petajoulkes, kt - Kilotonnes, mmbb - million barrels, mmbboe - million barrels of oil equivalent

Reserves, Contingent & Prospective Resources Statement

Oil and gas reserves, and contingent and prospective resources, are reported as at 30 June 2017 and follow the SPE PRMS Guidelines (2011).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

This resources statement is approved by, based on and fairly represents information and supporting documentation prepared by New Zealand Oil & Gas senior reservoir engineer Daniel Leeman.

Daniel Leeman has 9 years of experience within the petroleum industry. He began his career at Talisman Energy (UK) working within the Rotational Graduate Engineering Programme, where he later specialised as an HPHT Drilling Engineer. He later moved to Senergy (UK) as a reservoir engineer, then Conoco Phillips (UK) where he worked as a senior reservoir engineer. He has expertise in: production, test data analysis and optimisation, dynamic simulation and network modelling, hydrocarbon fluid phase behaviour, and on/offshore production and drilling operations support. Mr Leeman has a MENG in Mechanical Engineering with a diploma in Business Management, an MSc in Petroleum Engineering, and he is a certified professional engineer with the Institute of Professional Engineers New Zealand. He is also an active member of the Society of Petroleum Engineers, Association of International Petroleum Negotiators and the Royal Society of New Zealand.

New Zealand Oil & Gas reviews reserves holdings twice a year by reviewing data supplied from the field operator and comparing assessments at scheduled Technical Committee Meetings.

Consolidated Financial Statements

For the year ended 30 June 2017

The Board of Directors of New Zealand Oil & Gas Limited authorise these consolidated Financial Statements for issue on 29 August 2017.

For and on behalf of the Board.

Rodger Finlay	**Mark Tume**
Chairman	Director
29 August 2017	29 August 2017

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

	Notes	2017 $000	2016 $000
Cash flows from operating activities			
Receipts from customers		**73,446**	136,840
Production and marketing expenditure		**(30,317)**	(46,082)
Supplier and employee payments (inclusive of GST)		**(15,831)**	(21,304)
Interest received		**2,650**	649
Income taxes paid		**(11,242)**	(11,827)
Royalties paid		**(1,979)**	(6,349)
Other		**400**	4,268
Net cash inflow from operating activities		**17,127**	56,195
Cash flows from investing activities			
Exploration and evaluation expenditure	16	**(17,302)**	(23,466)
Oil and gas asset expenditure		**(5,235)**	(11,508)
Purchase of shares in subsidiary		**(1,251)**	-
Proceeds from sale of oil and gas interests or subsidiaries		**158,891**	-
Purchase of property, plant and equipment		**(12)**	(170)
Return of security deposit		**870**	-
Net cash inflow/(outflow) from investing activities		**135,961**	(35,144)
Cash flows from financing activities			
Issue of shares		**(10)**	78
Buyback of NZO shares		**(9,447)**	(1,046)
Capital return		**(99,999)**	-
Dividends paid		**(13,512)**	-
Other		**-**	(77)
Net cash outflow from financing activities		**(122,968)**	(1,045)
Net increase in cash and cash equivalents		**30,120**	20,006
Cash and cash equivalents at the beginning of period		**96,811**	83,659
Exchange rate effects on cash and cash equivalents		**(1,828)**	(6,854)
Cash and cash equivalents at end of the year		**125,103**	96,811

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

Consolidated Statement of Cash Flows

For the year ended 30 June 2017

Reconciliation of profit/(loss) for the year to net cash inflow from operating activities

	Notes	2017 $000	2016 $000
Profit/(Loss) for the year		**52,558**	(51,794)
Depreciation and amortisation		**7,804**	49,450
Deferred tax		**1,633**	(8,035)
Exploration expenditure included in investing activities		**12,273**	21,504
Asset impairment		**15,261**	26,605
Net foreign exchange differences		**(1,371)**	2,469
Unwind of discount on provision		**-**	1,689
Net surplus/(loss) from discontinued operations after tax		**(85,301)**	1,437
Cash from discontinued operations relating to operating activities		**20,482**	-
Stock movement		**(680)**	2,802
Other		**(301)**	468
Change in operating assets and liabilities			
Movement in trade debtors		**6,633**	16,422
Movement in trade creditors		**(11,615)**	(8,849)
Movement in inventory		**-**	2,477
Movement in tax payable		**(249)**	(450)
Movement in discontinued operations assets and liabilities		**-**	
Net cash inflow from operating activities		**17,127**	56,195

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

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2017

	Notes	2017 $000	2016* $000
Revenue	5	**37,058**	49,546
Operating costs	6	**(15,882)**	(18,997)
Exploration and evaluation expenditure	16	**(12,273)**	(21,891)
Other income	5	**807**	4,261
Other expenses	7	**(14,622)**	(16,838)
Results from operating activities excluding amortisation, impairment and net finance costs		**(4,912)**	(3,919)
Amortisation of production assets		**(8,271)**	(13,873)
Production asset impairment	17	**(7,694)**	(26,605)
Exploration and evaluation asset impairment	16	**(7,567)**	-
Net finance income/(costs)	8	**1,371**	(1,955)
Loss before income tax and royalties		**(27,073)**	(46,352)
Income tax (expense)/credit	9	**(5,095)**	6,587
Royalties expense	10	**(575)**	(717)
Loss for the year from continuing operations		**(32,743)**	(40,482)
Net surplus/(loss) from discontinued operations after tax	11	**85,301**	(11,312)
Profit/(Loss) for the year		**52,558**	(51,794)
Profit/(Loss) for the year attributable to:			
Profit/(Loss) attributable to shareholders		**62,695**	(29,763)
Loss attributable to non-controlling interest		**(10,137)**	(22,031)
Profit/(Loss) for the year		**52,558**	(51,794)
Other comprehensive profit/(loss):			
Items that may be classified to profit or loss			
Foreign currency translation differences	23	**(1,244)**	(7,967)
Total other comprehensive income/(loss) for the year		**51,314**	(59,761)
Total comprehensive income/(loss) for the year is attributable to:			
Equity holders of the Group		**61,193**	(35,942)
Non-controlling interest		**(9,879)**	(23,819)
Total comprehensive income/(loss) for the year		**51,314**	(59,761)
Profit/(loss) per share			
Basic and diluted (cents per share)	24	**20.0**	(8.6)

The notes to the financial statements are an integral part of these financial statements
*Comparative numbers have been restated due to discontinued operations. Refer to note 11.

Consolidated Statement of Financial Position

As at 30 June 2017

	Notes	2017 $000	2016 $000
ASSETS			
Current assets			
Cash and cash equivalents	12	**125,103**	96,811
Receivables and prepayments	13	**6,523**	13,156
Inventories		**1,450**	9,166
Assets held for sale		**-**	2,088
Total current assets		**133,076**	121,221
Non-current assets			
Exploration and evaluation assets	16	**6,692**	14,580
Oil and gas assets	17	**31,957**	207,937
Plant, property and equipment		**185**	193
Other intangible assets		**650**	1,042
Other financial assets	18	**16**	1,891
Total non-current assets		**39,500**	225,643
Total assets		**172,576**	346,864
LIABILITIES			
Current liabilities			
Payables	19	**5,784**	17,399
Current tax liabilities		**2,926**	3,175
Rehabilitation provision	20	**-**	1,548
Total current liabilities		**8,710**	22,122
Non-current liabilities			
Borrowings		**1,146**	1,137
Rehabilitation provision	20	**10,304**	77,458
Other provisions	21	**-**	6,350
Deferred tax liability	9	**3,360**	18,597
Total non-current liabilities		**14,810**	103,542
Total liabilities		**23,520**	125,664
Net assets		**149,056**	221,200
EQUITY			
Share capital	22	**208,630**	318,089
Reserves	23	**6,198**	1,051
Retained earnings		**(68,558)**	(111,382)
Attributable to shareholders of the Group		**146,270**	207,758
Non-controlling interest in subsidiaries		**2,786**	13,442
Total equity		**149,056**	221,200
Net asset backing per share (cents per share)		**89**	64
Net tangible asset backing per share (cents per share)		**84**	59

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

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	Issued capital $000	Reserves $000	Retained earnings $000	Total $000	Non-controlling interest $000	Total equity $000
Balance as at 1 July 2015	**319,060**	**(1,563)**	**(71,131)**	**246,366**	**35,473**	**281,839**
Loss for the year	-	-	(29,763)	(29,763)	(22,031)	(51,794)
Foreign currency translation differences	-	(7,967)	-	(7,967)	-	(7,967)
Shares issued	68	-	-	68	-	68
Buy back of issued shares	(1,046)	-	-	(1,046)	-	(1,046)
Partly paid shares issued	7	-	-	7	-	7
Share based payment	-	93	-	93	-	93
Transfer of expired share based payments	-	(46)	46	-	-	-
Asset revaluation reserve transferred to retained earnings	-	10,534	(10,534)	-	-	-
Balance as at 30 June 2016	**318,089**	**1,051**	**(111,382)**	**207,758**	**13,442**	**221,200**
Profit/(loss) for the year	**-**	**-**	**62,695**	**62,695**	**(10,137)**	**52,558**
Foreign currency translation differences	**-**	**(1,244)**	**-**	**(1,244)**	**-**	**(1,244)**
Shares issued	**1**	**-**	**-**	**1**	**-**	**1**
Buy back of issued shares	**(109,433)**	**-**	**-**	**(109,433)**	**-**	**(109,433)**
Party paid shares issued	**(27)**	**-**	**-**	**(27)**	**-**	**(27)**
Share based payment	**-**	**32**	**-**	**32**	**-**	**32**
Dividends declared	**-**	**-**	**(13,512)**	**(13,512)**	**-**	**(13,512)**
Change in share of non-controlling interest	**-**	**-**	**-**	**-**	**(1,168)**	**(1,168)**
Derecognition of FCTR on disposal of Tui	**-**	**6,359**	**(6,359)**	**-**	**-**	**-**
NCI adjustment on disposal of Pine Mills	**-**	**-**	**-**	**-**	**649**	**649**
Balance as at 30 June 2017	**208,630**	**6,198**	**(68,558)**	**146,270**	**2,786**	**149,056**

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

1. Basis of accounting

REPORTING ENTITY

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

BASIS OF PREPARATION

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

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

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

BASIS OF CONSOLIDATION

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. Intra-group balances, transactions, unrealised income or expenses arising from intra-group transactions and dividends are eliminated in preparing the Group financial statements. A list of subsidiaries and associates is shown in notes 14 and 15.

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

2. Critical accounting estimates and judgements

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

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

- recoverability of evaluation and exploration assets and oil and gas assets. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 16, 17 and 25(a)(ii)).
- provision for rehabilitation obligations includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 20).
- recoverability of deferred tax asset. Assessment of the ability of entities in the Group to generate future taxable income (refer to note 9).

3. Adoption status of relevant new financial reporting standards and interpretations

Certain new standards, amendments and interpretations to existing standards have been published that will be mandatory. The Group has chosen not to early adopt the following standards.

- IFRS 15 Revenue from Contracts with Customers (effective from I July 2018)
- IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 July 2018)
- IFRS 16 Leases (effective from 1 July 2019)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective date deferred)

The impact of these accounting standards is currently being assessed.

4. Segment information

All operating segments' operating results are reviewed regularly by the Group's chief executive officer (CEO), the entity's chief decision maker, and have discrete financial information available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.

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

Tui area oil field: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand. This asset was sold during the year (refer to note 11).

Kupe oil and gas field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand This asset was sold during the year (refer to note 11).

Oil & gas exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand and in Indonesia.

Cue Energy Resources Limited (Cue): the Group acquired a controlling interest in Cue during the 2015 financial year. Management have treated this as a separate operating segment.

4. Segment information (continued)

2017 $000	**Tui oil**	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - New Zealand	**-**	**-**	**-**	**-**	**22,861**	**22,861**
Sales to external customers - other countries	**-**	**-**	**-**	**-**	**14,196**	**14,196**
Total sales revenue	**-**	**-**	**-**	**-**	**37,057**	**37,057**
Other income	**-**	**-**	**-**	**736**	**-**	**736**
Total revenue and other income	**-**	**-**	**-**	**736**	**37,057**	**37,793**
Impairment of oil and gas assets	**-**	**-**	**(7,567)**	**-**	**(7,694)**	**(15,261)**
Segment result	**-**	**-**	**(11,117)**	**(8,454)**	**(8,873)**	**(28,444)**
Other net finance costs						**1,371**
Loss before income tax and royalties						**(27,073)**
Income tax and royalties expense						**(5,669)**
Loss for the year from continuing operations						**(32,742)**
Profit/(Loss) after tax from discontinuing operations	**(14,742)**	**102,390**	**-**	**-**	**(2,347)**	**85,301**
Profit for the year						**52,559**
Segment assets	**-**	**-**	**6,692**	**-**	**31,957**	**38,649**
Asset held for sale	**-**	**-**	**-**	**-**	**-**	**-**
Unallocated assets						**133,927**
Total assets						**172,576**
Included in segment results:						
Depreciation and amortisation expense	**-**	**-**	**-**	**433**	**8,305**	**8,738**
Depreciation and amortisation expense from discontinuing operations	**8,105**	**6,961**	**-**	**-**	**-**	**15,066**

2016 $000	**Tui oil**	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - New Zealand	-	-	-	-	29,854	29,854
Sales to external customers - other countries	-	-	-	-	19,693	19,693
Total sales revenue	-	-	-	-	49,547	49,547
Other income	-	-	-	181	4,080	4,261
Total revenue and other income	-	-	-	181	53,627	53,808
Impairment of oil and gas assets	-	-	-	-	(26,605)	(26,605)
Segment result	-	-	(4,044)	(9,350)	(31,003)	(44,397)
Other net finance costs						(1,955)
Loss before income tax and royalties						(46,352)
Income tax and royalties expense						5,869
Loss for the year from continuing operations						(40,483)
Profit/(Loss) after tax from discontinuing operations	(15,649)	7,656	-	-	(3,318)	(11,311)
Loss for the year						(51,794)
Segment assets	27,274	133,236	14,580	-	47,427	222,517
Asset held for sale	-	-	-	-	2,088	2,088
Unallocated assets						122,259
Total assets						346,864
Included in segment results:						
Depreciation and amortisation expense	-	-	-	469	13,910	14,379
Depreciation and amortisation expense from discontinuing operations	13,895	21,176	-	-	-	35,071

5. Revenue and other income

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

$000	2017	2016*
REVENUE		
Petroleum sales	**37,058**	49,546
Total revenue	**37,058**	49,546
OTHER INCOME		
Insurance proceeds	**541**	4,080
Other income	**266**	181
Total other income	**807**	4,261
Total income	**37,865**	53,807

6. Operating costs

$000	2017	2016*
Production and sales marketing costs	**(14,571)**	(16,407)
Carbon emission expenditure	**(139)**	(138)
Insurance expenditure	**(45)**	(139)
Movement in inventory	**(1,127)**	(2,313)
Total operating costs	**(15,882)**	(18,997)

7. Other expenses

$000	2017	2016*
CLASSIFICATION OF OTHER EXPENSES BY NATURE		
Audit fees paid to the Group auditor - KPMG	**120**	127
Audit fees paid to other auditors - BDO	**193**	106
Directors' fees	**609**	1,228
Legal fees	**1,032**	517
Consultants' fees	**981**	561
Employee expenses (i)	**8,034**	9,319
Depreciation	**69**	100
Amortisation of intangible assets	**398**	407
Share based payment expense	**32**	93
IT and software expenses	**800**	962
Pre-permit expenditure	**445**	548
Registry and stock exchange fees	**241**	320
Other	**1,668**	2,550
Total other expenses	**14,622**	16,838

(i) Employee expenses are net of $0.5 million (2016: $3.1 million) recharged to exploration and evaluation expense and recharged to operated joint ventures. Included in these expenses are $1.6 million relating to termination benefits of key management personnel.

A number of one-off expenses were incurred during the year relating to due diligence on potential acquisitions, legal and tax consultancy relating to the capital return and office move costs.

$000	2017	2016*
FEES PAID TO THE GROUP AUDITOR		
Audit and review of financial statements	**120**	127
Tax compliance services	**49**	157
Tax advisory services	**227**	90
Total fees paid to Group auditor	**396**	374
FEES PAID TO THE OTHER AUDITORS (FOR THE YEAR) - BDO		
Audit and review of subsidiary financial statements	**193**	106
Tax compliance services	**53**	22
Tax advisory services	**3**	122
Total fees paid to other auditors	**249**	250

*Comparative numbers have been restated due to discontinued operations. Refer to note 11.

8. Net finance income and costs

$000	2017	2016*
FINANCE COSTS		
Interest and finance charges	**(12)**	(107)
Unwinding of discount on provisions	**(2)**	(385)
Exchange losses on foreign currency balances	**(949)**	(1,942)
Total finance costs	**(963)**	(2,434)
FINANCE INCOME		
Interest income	**2,334**	454
Reversal of impairment of loan to related entities	**-**	25
Total finance income	**2,334**	479
Net finance (costs)/income	**1,371**	(1,955)

9. Taxation

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

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

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

$000	2017	2016*
a) INCOME TAX EXPENSE		
Current tax	**6,728**	(4,683)
Deferred tax	**(1,633)**	(1,903)
Total income tax expense/(credit)	**5,095**	(6,587)
b) INCOME TAX EXPENSE CALCULATION		
Loss before income tax expense and royalties from continuing operations	**(27,073)**	(46,352)
Less: royalties expense	**(574)**	(717)
Loss before income tax expense	**(27,647)**	**(47,070)**
Tax at the New Zealand tax rate of 28%	**(7,741)**	(13,180)
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	**3,722**	2,510
Non-deductible write off	**2,849**	256
Unrealised timing differences	**4,164**	10,506
Other (income)/expenses	**(299)**	(591)
	2,695	**(499)**
Under provision in prior years	**2,400**	(6,088)
Income tax expense/(credit)	**5,095**	**(6,587)**
Restated [1]		
c) IMPUTATION CREDITS AVAILABLE FOR SUBSEQUENT REPORTING PERIODS	**3,543**	15,025

[1] The imputation credits available for subsequent reporting periods has been restated. The previous balance reported was $8.427 million.

*Comparative numbers have been restated due to discontinued operations. Refer to note 11.

9. Taxation (continued)

d) DEFERRED TAX

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and future tax benefits are recognised where realisation of the asset is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences. As at 30 June 2017 Cue have accumulated losses in New Zealand of $29.1 million (30 June 2016: $26.8 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to Cue satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

$000	2017	2016*
The balance comprises temporary differences attributable to:		
Non-deductible provisions	**145**	18,542
	145	18,542
Other		
Exploration assets	**-**	(186)
Oil & gas assets	**(3,589)**	(36,953)
Sub-total other	**(3,589)**	(37,139)
Net deferred tax liabilities	**(3,444)**	(18,597)
Movements:		
Net deferred tax liability at 1 July	**(18,597)**	(26,706)
Derecognised deferred tax balances from discontinued operations	**19,581**	-
Recognised in profit or loss	**(4,291)**	7,999
Recognised in other comprehensive income	**(53)**	110
Closing balance at end of year	**(3,360)**	(18,597)

10. Royalties expense

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

*Comparative numbers have been restated due to discontinued operations. Refer to note 11.

11. Discontinued Operations

A discontinued operation is a component of an entity, being a cash-generating unit that either has been disposed of, or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with the view to resale.

On 14 December, the Group approved the sale of its 15 per cent interest in the Kupe gas and oil field off Taranaki basin. The sale was subsequently finalised on 1 January 2017 with the risk and rewards of the permit passing on that date. Genesis Energy paid $168 million for the Group's shares in three entities that hold its Kupe interest and included the Group's entitlement to overriding royalty interests.

On 14 February 2017, the Group accepted an offer from Tamarind for its 27.5 per cent interest in the Tui oil fields off Taranaki basin. The sale became effective from 1 January 2017. Tamarind paid the Group US dollars $0.75 million in exchange for all shares in its Tui holding Company, Stewart Petroleum. Stewart Petroleum's assets and liabilities include a 27.5 per cent interest in the Tui field, and inventory of US dollars $4.7 million of oil. A working capital adjustment of US dollars $6.0 million was also transferred to Tamarind. Tamarind will also assume all field retirement obligations.

In addition, Cue Energy announced on 10 November 2016 the sale of their 80 per cent interest in Pine Mills to Mosman Oil and Gas for US dollars $0.975 million.

The impact on the Group following the sale of these components is shown below. The results for the period have been presented as discontinued operations in the Consolidated Statement of Comprehensive Income for current and comparative period.

2017 $000	Tui oil	Kupe oil & gas	Pine Mills	Total
RESULTS OF OPERATING ACTIVITIES				
Revenue	10,179	22,393	623	33,195
Operating costs	(8,345)	(4,841)	(889)	(14,075)
Exploration and evaluation costs expensed	(3)	2	-	(1)
Other income	-	1,530	-	1,530
Other expenses	-	12	-	12
Results from operating activities excluding amortisation, impairment and net finance costs	1,831	19,096	(266)	20,661
Amortisation of production assets	(8,105)	(6,961)	(64)	(15,130)
Net finance costs	(576)	(239)	30	(785)
(Loss)/profit before income tax and royalties	(6,850)	11,896	(300)	4,746
Income tax expense	(7,577)	(2,945)	-	(10,522)
Royalties expense	(548)	(1,526)	-	(2,074)
(Loss)/profit after tax from discontinuing operations	(14,975)	7,425	(300)	(7,850)
RECONCILIATION OF GAIN/(LOSS) ON SALE				
Gross sale proceeds	1,048	168,000	1,018	170,066
Sales costs and working capital adjustment	(7,127)	3,385	62	(3,680)
Net sales proceeds	(6,079)	171,385	1,080	166,386
Less carrying value of subsidiary prior to sale	(6,312)	76,420	2,425	72,533
Less non-controlling interest disposed	-	-	702	702
Net gain/(loss) on sale	233	94,965	(2,047)	93,151
Summary of results of discontinued operations	(14,742)	102,390	(2,347)	85,301

11. Discontinued Operations (continued)

2017 $000	Tui oil	Kupe oil & gas	Pine Mills	Total
CARRYING VALUE OF NET ASSETS DISPOSED				
Cash and cash equivalents	**1,091**	**5,326**	**-**	**6,417**
Receivables and prepayments	**1,535**	**5,923**	**430**	**7,888**
Inventories	**6,822**	**1,944**	**-**	**8,766**
Oil and gas assets	**18,068**	**127,033**	**2,576**	**147,676**
Other financial assets	**-**	**42**	**-**	**42**
Payables	**(1,384)**	**(10,558)**	**-**	**(11,942)**
Current tax liabilities	**-**	**(334)**	**-**	**(334)**
Rehabilitation provision	**(36,516)**	**(29,303)**	**(581)**	**(66,400)**
Deferred tax asset/(liability)	**4,072**	**(23,653)**	**-**	**(19,581)**
Net assets disposed	**(6,312)**	**76,420**	**2,425**	**72,533**
CASH FLOWS FROM DISCONTINUED OPERATIONS				
Net cash used in operating activities	**1,657**	**19,300**	**(475)**	**20,482**
Net cash used in investing activities	**(8,597)**	**164,651**	**(23)**	**156,031**
Net cash used in from financing activities	**-**	**-**	**-**	**-**
Net cash (outflow)/inflow for discontinuing operations	**(6,940)**	**183,951**	**(498)**	**176,513**

2016 $000	Tui oil	Kupe oil & gas	Pine Mills	Total
RESULTS OF OPERATING ACTIVITIES				
Revenue	19,546	49,936	1,073	70,555
Operating costs	(17,351)	(11,904)	(2,965)	(32,220)
Exploration and evaluation costs expensed	404	(17)	-	387
Other income	-	2,367	-	2,367
Other expenses	(126)	(617)	-	(743)
Results from operating activities excluding amortisation, impairment and net finance costs	2,473	39,765	(1,892)	40,346
Amortisation of production assets	(13,895)	(21,176)	(171)	(35,242)
Asset impairment	-	-	(1,308)	(1,308)
Net finance costs	(965)	(888)	134	(1,719)
Profit/(loss) before income tax and royalties	(12,387)	17,701	(3,237)	2,077
Income tax expense	(2,238)	(7,771)	(81)	(10,090)
Royalties expense	(1,023)	(2,276)	-	(3,299)
(Loss)/profit after tax from discontinuing operations	(15,648)	7,654	(3,318)	(11,312)
CASH FLOWS FROM DISCONTINUED OPERATIONS				
Net cash used in operating activities	14,939	30,055	(2,441)	42,553
Net cash used in investing activities	34	(3,745)	(189)	(3,900)
Net cash used in from financing activities	-	-	2,433	2,433
Net cash inflow/(outflow) for discontinuing operations	14,973	26,310	(197)	41,086

12. Cash and cash equivalents

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

$000	2017	2016
Cash at bank and in hand	**13,350**	37,379
Deposits at call	**3,331**	31,317
Short term deposits	**108,357**	20,768
Share of oil and gas interests' cash	**65**	7,347
Total cash and cash equivalents at end of year	**125,103**	96,811

Cash and cash equivalents denominated by currency $000	Base Currency	NZD Equivalent
2017		
NZ dollar	**81,988**	**81,988**
US dollar	**31,388**	**42,868**
AU dollar	**236**	**247**
ID rupiah	-	-
Total cash and cash equivalents at end of year		**125,103**
2016		
NZ dollar	16,148	16,148
US dollar	56,786	79,879
AU dollar	620	649
ID rupiah	1,264,547	135
Total cash and cash equivalents at end of year		96,811

Deposits at call and short-term deposits

The deposits at call and short term deposits are bearing interest rates between 0.2% and 2.2% [2016: 0.1% and 2.6%].

13. Receivables and prepayments

$000	2017	2016
Trade receivables	**864**	6,193
Share of oil and gas interests' receivables	**5,625**	6,429
Prepayments	**34**	533
Other	-	1
Total receivables and prepayments at end of year	**6,523**	13,156

Receivables and prepayments denominated by currency $000	Base Currency	NZD Equivalent
2017		
NZ dollar	**1,803**	**1,803**
US dollar	**3,242**	**4,627**
AU dollar	**89**	**93**
ID rupiah	-	-
Total receivables and prepayments at end of year		**6,523**
2016		
NZ dollar	4,198	4,198
US dollar	5,682	8,845
AU dollar	90	97
ID rupiah	148,642	16
Total receivables and prepayments at end of year		13,156

14. Investments in subsidiaries

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

At 30 June 2017 the Group holds a 50.04 per cent interest in Cue Energy Resources Limited (30 June 2016: 48.11 per cent). Cue entities below reflect the Group's 50.04 per cent interest in Cue subsidiaries.

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

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the subsidiaries within the Group are shown below.

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

Name of entity	Country of incorporation	Equity Holding 2017	Equity Holding 2016	Functional Currency
NEW ZEALAND OIL & GAS				
ANZ Resources Pty Limited	Australia	**100%**	100%	AUD
Australia and New Zealand Petroleum Limited	New Zealand	**100%**	100%	NZD
Kupe Royalties Limited (i)	New Zealand	-	100%	NZD
National Petroleum Limited (i)	New Zealand	-	100%	NZD
Nephrite Enterprises Limited (i)	New Zealand	-	100%	NZD
NZOG 54867 Limited	New Zealand	**100%**	100%	NZD
NZOG 38483 Limited	New Zealand	**100%**	100%	NZD
NZOG 2013 O Limited	New Zealand	**100%**	100%	NZD
NZOG Asia Pty Limited	Australia	**100%**	100%	USD
NZOG Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG 54857 Limited	New Zealand	**100%**	100%	NZD
NZOG Developments Limited	New Zealand	**100%**	100%	NZD
NZOG Devon Limited	New Zealand	**100%**	100%	NZD
NZOG 2013T Limited	New Zealand	**100%**	100%	NZD
NZOG Energy Limited	New Zealand	**100%**	100%	NZD
NZOG Palmerah Baru Pty Limited	Australia	**100%**	100%	USD
NZOG Offshore Limited	New Zealand	**100%**	100%	NZD
NZOG Pacific Holdings Pty Limited	Australia	**100%**	100%	USD
NZOG Pacific Limited	New Zealand	**100%**	100%	NZD
NZOG Services Limited	New Zealand	**100%**	100%	NZD
NZOG Taranaki Limited	New Zealand	**100%**	100%	NZD
NZOG Tunisia Pty Limited	Australia	**100%**	100%	USD
Oil Holdings Limited	New Zealand	**100%**	100%	NZD
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90%**	90%	USD
Petroleum Equities Limited (i)	New Zealand	-	100%	NZD
Petroleum Resources Limited	New Zealand	**100%**	100%	NZD
Resource Equities Limited	New Zealand	**100%**	100%	NZD
Stewart Petroleum Co Limited (i)	New Zealand	-	100%	USD
NZOG MNK Kisaran Pty Limited	Australia	**100%**	100%	USD
NZOG MNK Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG MNK Palmerah Pty Limited	Australia	**100%**	100%	USD

(i) Refer to note 11.

14. Investments in subsidiaries (continued)

Name of entity	Country of incorporation	Equity Holding 2017	Equity Holding 2016	Functional Currency
CUE ENERGY RESOURCES				
Cue Energy Resources Limited	Australia	**50.04%**	48.1%	AUD
Cue Mahakam Hilir Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	**50.04%**	48.1%	AUD
Cue Sampang Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Taranaki Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Resources Inc	USA	**50.04%**	48.1%	USD
Buccaneer Operating LLC	USA	-	48.1%	USD
Cue Kalimantan Pte Ltd	Singapore	**50.04%**	48.1%	USD
Cue Mahato Pty Ltd	Australia	**50.04%**	48.1%	AUD
Cue Exploration Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Cooper Pty Ltd	Australia	**50.04%**	48.1%	AUD
Cheetah Energy Services LLC	USA	-	48.1%	USD

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

15. Oil and gas interests

The Group has interests in a number of joint arrangements which are classified as joint operations. The Group financial statements include a proportional share of the oil and gas interests' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

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

Name	Type	Country	Ownership 2017	Ownership 2016
NEW ZEALAND OIL & GAS				
PML 38146 – Kupe (v)	Mining Licence	New Zealand	-	15.0%
PMP 38158 – Tui (vi)	Mining Permit	New Zealand	-	27.5%
PEP 52717 – Clipper	Exploration Permit	New Zealand	**50.0%**	50.0%
PEP 51906 – Matuku (iii)	Exploration Permit	New Zealand	-	12.5%
PEP 55792 – Galleon (iv)	Exploration Permit	New Zealand	-	100.0%
PEP 55793 – Vulcan (vii)	Exploration Permit	New Zealand	-	30.0%
PEP 55794 - Toroa	Exploration Permit	New Zealand	**30.0%**	30.0%
Kisaran PSC	Production Sharing Contract	Indonesia	**22.5%**	22.5%
Bohorok PSC	Production Sharing Contract	Indonesia	**45.0%**	45.0%
Palmerah Baru PSC	Production Sharing Contract	Indonesia	**36.0%**	36.0%
MNK Kisaran PSC (viii)	Production Sharing Contract	Indonesia	**11.3%**	11.3%
MNK Palmerah PSC (viii)	Production Sharing Contract	Indonesia	**15.3%**	15.3%
MNK Bohorok	Joint Study Agreement	Indonesia	**20.3%**	20.3%
CUE ENERGY RESOURCES*				
WA-359-P	Exploration Permit	Australia	**100.0%**	100.0%
WA-389-P	Exploration Permit	Australia	**40.0%**	40.0%
WA-409-P	Exploration Permit	Australia	**20.0%**	100.0%
PEP 51313 (ii)	Exploration Permit	New Zealand	-	14.0%
PEP 51149 (ii)	Exploration Permit	New Zealand	-	20.0%
PEP 54865 (ii)	Exploration Permit	New Zealand	-	20.0%
Mahakam Hilir PSC	Production Sharing Contract	Indonesia	**100.0%**	100.0%
PMP 38160 – Maari	Mining Permit	New Zealand	**5.0%**	5.0%
Sampang PSC	Production Sharing Contract	Indonesia	**15.0%**	15.0%
Mahato PSC	Production Sharing Contract	Indonesia	**12.5%**	12.5%
Pine Mills (i)	Mining Permit	USA	-	80.0%

(i) Pine Mills permit was sold 16 November 2016

(ii) PEP 51313, PEP 51149 and PEP 54865 were withdrawn in the third quarter of 2016

(iii) PEP 51906 – Matuku was surrendered on 16 August 2016

(iv) PEP 55792 – Galleon was surrendered on 27 September 2016

(v) PML 38146 – Kupe license was sold with effective date 1 January 2017

(vi) PML 38158 – Tui permit was sold with effective date 1 January 2017

(vii) PEP 55793 – Vulcan was surrendered on 27 April 2017

(viii) In August 2017 an agreement was signed to sell the MNK Kisaran PSC and MNK Palmerah PSC to Bukit Energy. Completion has not yet taken place

*Represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 50.04% (2016: 48.1%) of the Cue interest

15. Oil and gas interests (continued)

SHARE OF OIL AND GAS INTERESTS' ASSETS AND LIABILITIES

$000	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	**65**	7,347
Trade receivables	**806**	7,003
Inventory	**779**	2,440
NON-CURRENT ASSETS		
Petroleum interests (ii)	**53,911**	479,641
Total assets	55,560	496,431
CURRENT LIABILITIES		
Short-term liabilities	**2,437**	7,594
Total liabilities	2,437	7,594
Net Assets	53,123	488,837
SHARE OF OIL AND GAS INTERESTS' LOSS		
Revenue (i)	-	4
Expenses	**(14,559)**	(14,061)
Loss before income tax	(14,559)	(14,057)

Interests relating to Tui, Kupe and Pine Mills are not included in 2017.

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

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

16. Exploration and evaluation

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

Key judgement: recoverability of exploration and evaluation assets

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

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

16. Evaluation and exploration (continued)

$000	2017	2016
Opening balance	**14,580**	15,258
Impairment of exploration asset	**(7,567)**	-
Revaluation of USD exploration and evaluation assets	**(321)**	(678)
Closing balance at end of year	**6,692**	14,580

The valuation of the Kisaran development asset has been revised based on recent transactions for the sale of interests which show that the realisable value is closer to US dollars $4.9 million.

In May 2017, Cue Energy announced that an ongoing dispute relating to an exploration well in the Jeruk field within the Sampang PSC in Indonesia had been settled for US dollars $6.8 million. The settlement was paid in May 2017 and US dollars $6.8 million is included in Exploration and Evaluation expenditure in the Consolidated Statement of Cash Flows. US dollars $4.6 million had previously been accrued in the profit and loss so in the current year US dollars $2.2 million is expensed in Exploration and Evaluation expenditure in the Consolidated Statement of Comprehensive Income (see note 21).

17. Oil and gas assets

DEVELOPMENT

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and development wells. No amortisation is provided in respect of development assets until they are reclassified as production assets.

PRODUCTION ASSETS

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

SUBSEQUENT COSTS

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

IMPAIRMENT

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

17. Oil and gas assets (continued)

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

Impairment losses recognised in prior periods are reassessed at each reporting date and the loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously.

$000	2017	2016
Opening balance	**207,937**	289,356
Expenditure capitalised	**5,012**	6,843
Impairment (i)	**(7,694)**	(26,605)
Amortisation for the year	**(24,880)**	(51,043)
Depreciation for the year	**-**	(30)
Revaluation of USD production assets	**3,066**	(7,482)
Abandonment provision	**(3,808)**	1,005
Transfer to asset held for sale (ii)	**-**	(4,107)
Disposals (iii)	**(147,676)**	-
Closing balance at end of year	**31,957**	207,937

(i) At 30 June 2017 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in an impairment loss of $7.7 million (30 June 2016: $26.6 million) being recognised. This Impairment relates to the Maari oil and gas asset and is included in Asset impairment in the profit and loss.

Estimates of recoverable amounts of oil and gas assets are based on their value in use with a discount rate of 10% applied. The oil price assumptions used are based on forward prices, rising to consensus mean after 4 years.

(ii) The Pine Mills oil asset was transferred to 'assets held for sale' and treated as a current asset.

(iii) During the year the Groups interest in the Kupe, Tui and Pine Mills assets were sold (see note 11).

In May the Group agreed to purchase Mitsui E&P Australia's 4 per cent interest in the Kupe gas and light oil field for $35 million. The Group previously held a 15 per cent share in the Kupe field, which was sold to Genesis Energy at a premium on 1 January 2017.

The acquisition is not consolidated into the Group at 30 June 2017 as the sale has not yet been completed. Before Mitsui's interest can pass, joint venture and regulatory approvals are required. In July 2017 the Group received confirmation that the other joint venture participants would not exercise their pre-emptive purchase rights. Overseas Investment Office approval is still pending. No consideration has yet been paid. It is expected that the remaining condition will be satisfied post 30 June 2017.

The fair value of assets and liabilities acquired has yet to be finalised and as a result this information has not been disclosed. Any goodwill/bargain gain on acquisition can only be determined once the fair value of assets and liabilities acquired have been finalised. Further details on the acquisition will be disclosed in the Interim Report for 31 December 2017.

Acquisition related costs amounting to $0.4 million have been expensed as incurred in the profit or loss within 'other operating expenses'.

18. Other financial assets

$000	2017	2016
Performance bonds	**16**	1,891
Total other financial assets at end of year	**16**	1,891

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable once conditions are met under the joint study agreement and production sharing contracts.

19. Payables

$000	2017	2016
Trade payables	**2,328**	4,886
Stock over lift payable (i)	**-**	1,015
Royalties payable	**174**	1,250
Share of oil and gas interests' payable	**2,437**	8,362
Other payables	**845**	1,886
Total payables at end of year	**5,784**	17,399

(i) Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in the profit or loss.

PAYABLES DENOMINATED BY CURRENCY

$000	Base Currency	NZD Equivalent
2017		
NZ dollar	**2,435**	**2,435**
US dollar	**1,482**	**2,023**
AU dollar	**1,247**	**1,310**
ID rupiah	**146,376**	**16**
Total payables at end of year		**5,784**
2016		
NZ dollar	5,650	5,650
US dollar	5,982	8,623
AU dollar	2,747	3,010
ID rupiah	737,876	116
Total payables at end of year		17,399

20. Rehabilitation Provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 2.46% from the United States. The initial provision and subsequent re- measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

$000	2017	2016
Carrying amount at start of year	**79,006**	78,930
(Reduction)/addition in provision recognised	**(2,302)**	1,405
Foreign currency revaluation of provisions	**-**	(3,034)
Unwinding of discount	**-**	1,705
Reduction in provision due to disposal of Tui and Kupe assets	**(66,400)**	-
Carrying amount at end of year	**10,304**	79,006
Current	**-**	1,548
Non-current	**10,304**	77,458
Carrying amount at end of year	**10,304**	79,006

21. Other provisions

The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of a provision assumed as at 31 March 2015. The provision related to a dispute between Cue and another party, whereby Cue may in certain circumstances have an obligation to reimburse monies to the other party from future profits in Sampang PSC, Indonesia. The matter was settled in May 2017 with Cue paying US dollar $6.8 million in settlement of monies owed. US dollars $4.6 million had been accrued to date with the balance of US dollars $2.2 million being expensed.

22. Share capital

	Number of shares 000s	$000
Balance at 1 July 2015	345,864	319,060
Shares issued during the year	151	68
Partly paid shares issued	1,672	7
Shares cancelled as part of buyback program	(2,174)	(1,046)
Balance at 30 June 2016	**345,513**	**318,089**
Shares issued during the year	**-**	**1**
Partly paid shares issued	**2,596**	**(27)**
Shares cancelled as part of buyback program	**(17,151)**	**(9,434)**
Shares cancelled as part of capital return	**(159,427)**	**(99,999)**
Partly paid shares forfeited	**(3,682)**	**-**
Balance at 30 June 2017	**167,849**	**208,630**
Composed of:		
Fully paid shares	**159,429**	**208,570**
Partly paid shares	**8,420**	**60**
Balance at 30 June 2017	**167,849**	**208,630**

22. Share capital (continued)

No ordinary shares were issued during the year (2016: 0.2 million shares transferred from partly paid shares to fully paid ordinary shares).

There were 2.6 million shares partly paid shares issued under the ESOP plan (2016: 1.7 million), this included 1.0 million shares awarded to the CEO on his appointment. During the year 3.7 million partly paid shares were forfeited and converted into fully paid shares and immediately cancelled. Partly paid shares are entitled to a vote in proportion to the amount paid up. Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 27.

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

In August 2015 the shareholders approved a share buyback program and the Group commenced a buyback in April 2016. During the year 17.2 million shares were cancelled as part of the buyback program (2016: 2.2 million).

In May 2017 the Group cancelled 1 in every 2 ordinary shares and paid $0.672 per ordinary share cancelled. The total capital returned to ordinary shareholders was $100 million.

23. Reserves

a) RESERVES

$000	2017	2016
Share based payments reserve	**147**	115
Foreign currency translation reserve	**6,051**	936
Total reserves at end of year	**6,198**	1,051

MOVEMENTS:

$000	2017	2016
SHARE BASED PAYMENTS RESERVE		
Opening balance at 1 July	**115**	68
Share based payment expense for the year	**32**	93
Transfer of expired share based payments during the year	**-**	(46)
Closing balance at end of year	**147**	115
FOREIGN CURRENCY TRANSLATION RESERVE		
Opening balance at 1 July	**936**	8,903
FCTR on disposal of Tui	**6,359**	-
Foreign currency translation differences for the year	**(1,244)**	(7,967)
Closing balance at end of year	**6,051**	936

b) NATURE AND PURPOSE OF RESERVES

i) Foreign currency translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. The reserve is recognised in other comprehensive income when the net investment is disposed of.

24. Profit/(Loss) per share

$000	2017	2016
Profit/(loss) attributable to shareholders ($000)	**62,695**	(29,763)
Weighted average number of ordinary shares (000)	**311,450**	347,176
Basic and diluted earnings per share (cents)	**20.0**	(8.6)

25. Financial risk management

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

a) MARKET RISK

i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, performance bonds, oil sales, recoverable value of oil and gas assets and capital commitments that are denominated in foreign currencies. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements. The Group may enter into foreign currency hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence. The Group had no option call contracts at 30 June 2017 (2016: $1.4 million).

iii) Concentrations of interest rate exposure

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

b) CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults. Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short-term cash deposits, trade receivables and short-term funding arrangements. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties. The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

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

c) LIQUIDITY RISK

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

25. Financial risk management (continued)

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

$000	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years	Contractual cash flows
30 JUNE 2017						
Payables	**5,784**	-	-	-	-	**5,784**
Tax liabilities	**2,926**	-	-	-	-	**2,926**
Total non-derivative liabilities	**8,710**	-	-	-	-	**8,710**
30 JUNE 2016						
Payables	**17,399**	-	-	-	-	**17,399**
Tax liabilities	**3,175**	-	-	-	-	**3,175**
Total non-derivative liabilities	**20,574**	-	-	-	-	**20,574**

At 30 June 2017 the Group had no derivatives to settle (2016: $Nil).

d) CAPITAL MANAGEMENT

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

e) SENSITIVITY ANALYSIS

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity prices and currency risks. The Group's exposure to these risks is described in note 25(a).

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

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at 30 June 2017 would be to decrease the Group profit before tax by $2.1 million and decrease the foreign currency translation reserve in equity by $0.7 million (2016: $2.4 million increase on loss before tax and $1.8 million decrease in the foreign currency translation reserve).

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by $1.2 million (2016: $1.0 million increase), based on maintaining current cash balances.

f) RECOGNISED ASSETS AND LIABILITIES

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

g) FINANCIAL INSTRUMENTS BY CATEGORY

	2017	2016
ASSETS		
Cash and cash equivalents	**125,103**	96,811
Trade and other receivables	**6,489**	12,623
	131,592	109,434
LIABILITIES		
Payables	5,784	17,399
Borrowings	1,146	1,137
	6,930	18,536

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

26. Related party transactions

Related parties of the Group include those entities identified in notes 14 and 15 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms. There have been no material transactions with related parties during the year.

A number of directors are also non-executive directors of other companies and any transactions undertaken with these entities have been entered into as part of the ordinary business.

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group. Cue management personnel have been included.

$000	2017	2016
Short term employee benefits	**4,594**	6,610
Share based payments	**18**	27
Termination benefits	**1,620**	107
Total	**6,232**	6,744

27. Share-based payments

The Group operates an Employee Share Ownership Plan (ESOP) which is open to nominated employees. Under the plan there are currently 8.4 million (June 2016: 9.5 million) partly paid shares for which employees have paid $0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2017 $0.03 million (June 2016: $0.09 million) was expensed through the Consolidated Statement of Comprehensive Income. A total of 2.6 million (June 2016: 2.3 million) shares were awarded, no shares vested (June 2016: 0.2 million shares vested during the year at an average cost of $0.45 per share), and expired/forfeited shares totalling 3.7 million (June 2016: 0.5 million) were sold or converted to ordinary shares and cancelled. A further 1.8 million (June 2016: 0.1 million) shares were forfeited and remain unallocated.

28. Commitments and contingent assets and liabilities

a) EXPLORATION EXPENDITURE COMMITMENTS

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

Cue's exploration portfolio includes a commitment of AU$31.3 million which relates to Australian permit WA359P which contains the Ironbark prospect. This permit is currently being marketed and a farm out process is ongoing.

b) OPERATING LEASES AND COMMITMENTS

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

$000	2017	2016
Within one year	**519**	1,032
Later than one year and not later than five years	**280**	446
	799	1,478

During the year ended 30 June 2017 $0.7 million was recognised as an expense in profit or loss in respect of operating leases (2016: $0.7 million).

The Group is not committed to any operational commitments. Previously the Group was committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the previous year was $11.5 million.

c) CONTINGENT ASSETS AND LIABILITIES

The group has no contingent assets and liabilities.

The contingent liability disclosed at 30 June 2016 has been settled (see note 21).

29. Events occurring after balance date

On 10 August 2017 a takeover notice pursuant to rule 41 of the Takeover code was received from Zeta Energy Pte Limited (Zeta) of their intention to make a partial takeover offer to acquire an additional 41.955% of each class of share not currently held or controlled by Zeta. If successful the offer would result in Zeta holding or controlling no less than 50.01% of the voting rights of the Group.

Subsequent to 30 June 2017 the Directors have approved a fully imputed dividend of 4 cents per share which is equal to $6.4 million to be paid on 3 November 2017 (2016: 4 cents per share paid on 25 October 2016).

Independent Auditor's Report

To the shareholders of New Zealand Oil and Gas Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of New Zealand Oil and Gas Limited (the company) and its subsidiaries (the group) on pages 21 to 47:

i. present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2017;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to tax compliance and advisory services. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Scoping

The context for our audit is established by the Group's major activities each financial year. In the current year the Group sold its two major producing assets.

In November 2016 the Group announced that it had reached an agreement to sell its 15% interest in the Kupe gas and oil fields and production station ('Kupe') to Genesis Energy for NZ$168 million. On 16 December 2016, the shareholders approved the disposal of Kupe in a Special General Meeting. In February 2017 the Group accepted an offer for its 27.5 per cent interest in the Tui area oil fields off Taranaki, New Zealand. Both transactions were completed with an effective date of 1 January 2017.

The scope of our audit is designed to ensure that we perform enough work to be able to give an opinion on the Consolidated Financial Statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

The Consolidated Financial Statements includes the 50.04% shareholding in Cue Energy Limited ('Cue'). In establishing the scope of audit work to be performed by the Component auditor for Group consolidation purposes, we determined the nature and extent of work to be performed would be a full scope audit. We kept in regular communication with component audit team throughout the year with discussions and formal instructions, including review of work performed, where appropriate. We also ensured that the component audit team had the appropriate skills and competencies which are needed for the audit.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $2.3 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period.' Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Major Transactions	
In January 2017 the Group completed the sale of its 15% interest in the Kupe gas field ('Kupe') for cash consideration of $168 million, resulting in a gain on sale of $96 million. In February 2017 the Group completed the sale of its 27.5% interest in the Tui area oil fields ('Tui') which resulted in a gain on sale of $0.2 million Note 11 to the financial statements discloses the gain on disposal of Kupe and Tui as well as the results from and cash flows attributable to the discontinued operations. This has been an area of focus given the significance of disposing two major operating segments, and the complexity and judgement in accounting for these disposals, specifically in determining the net assets and liabilities to be included in the disposal group	Our audit procedures over these major transactions included; — Reviewing the sale and purchase agreements and agreeing the elements of the gain calculation to them; — Agreeing the sale proceeds received to the sale and purchase agreements and cash received; — Reviewing management's consolidation of Kupe and Tui up to the date of disposal; — Agreeing the net assets disposed to the completion accounts and the closing net asset position; and — Assessing the appropriate disclosures included in the financial statements.

Recoverability of Oil and Gas Assets

Post the sale of Kupe and Tui, the Group's oil and gas assets include Maari and Sampang production assets held via its investment in Cue Energy Limited.

As noted in Note 17 the remaining carrying value of oil and gas assets on the balance sheet as at 30 June 2017 was $32 million (2016: $208 million).

Key judgements involved in assessing the recoverable value of the remaining oil and gas assets include:

- Future oil and gas prices;
- Oil and Gas reserves and forecast production levels;
- Discount rate; and
- Future operating costs and capital costs.

The procedures performed to assess the reasonableness of the recoverable value of the oil and gas assets included:

- comparing future oil price assumptions with third party forecasts and publicly available forward price curves;
- comparing future gas price assumptions to either contracted gas or third party forecasts;
- comparing the production profiles and proved and probable reserves to third party reserve reports. Reviewing the reserve report to determine if the assumptions were reasonable and in line with our understanding and expectations;
- challenging the discount rate used by comparing it to market participants and industry research; and
- assessing estimated future costs by comparing to approved budgets and where applicable, third party data and historical trends.

Other Information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's review, Chief Executive's report, disclosures relating to productions and reserves, corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Other matter

Subsequent to 29 August 2017, the date of our independent auditor's report, the Group identified that the Imputation credits available for subsequent reporting periods disclosed in financial statements was incorrect. Note 9 (c) of the financial statements has been restated to reflect the correct amount and the Directors have reissued the financial statements on 14 September 2017. Consequently our independent auditor's report dated 29 August 2017 has been amended.

Use of this Independent Auditor's Report

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

KPMG

Responsibilities of the Directors for the Consolidated Financial Statements

The Directors, on behalf of the group, are responsible for:

- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx

This description forms part of our Independent Auditor's Report.

KPMG

David Gates

For and on behalf of

KPMG
Wellington

14 September 2017

Corporate Governance Statement

New Zealand Oil & Gas Limited (the Company) is a limited liability company registered under the New Zealand Companies Act 1993. The Company is listed and its shares quoted on the Main Board equity security market operated by NZX Limited (NZX) under the code "NZO".

This statement sets out the main corporate governance practices adopted by the Company. It is current to 30 June 2017 (unless a more recent date is expressly stated), and has been approved by the board. Unless otherwise stated the Company's governance practices are considered to comply with the corporate governance guidelines issued by the NZX and the new NZX Corporate Governance Code 2017.

Board of Directors

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

The Board Charter is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/285**

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, must retire by rotation. If eligible, each retiring director may offer themselves for re-election. Details of current Directors are set out in the table below:

Director	Appointed	Position	Experience
Mr R J Finlay B Com, FCA, CFInstD	February 2012 Chairman since February 2016	Independent	BCom, University of Otago. 35 years experience in financial services industry, 20 of which specialising in the global natural resource sectors. Other Directorships: Radio New Zealand, Rural Equities Ltd, Mundane Asset Management, New Zealand Thoroughbred Racing and Moeraki Ltd. Fellow of Chartered Accountants Australia and New Zealand and a Chartered Fellow of the Institute of Directors.
Dr R Archer PhD, MS, BE	November 2014	Independent	BE in Engineering Science, University of Auckland, PhD in Petroleum Engineering and PhD minor in Geological and Environmental Science, Stanford University. Professor Archer is the Mercury Chair of Geothermal Reservoir Engineering at the University of Auckland. A Distinguished Member of the Society of Petroleum Engineers. 2016 Deloitte Energy Engineer of the Year. Member of the Institute of Directors of New Zealand and director of the University of Auckland Geothermal Institute.
Mr R Ritchie BSc	October 2013	Independent	BSc, University of Tulsa. 38 years of experience as a line manager and a Health, Safety, Security and Environment executive in the oil and gas industry – including being the Corporate Senior Vice President of HSSE at OMV based in Vienna. Other Directorships: Sparc (Aust) Pty Ltd. Member of the Society of Petroleum Engineers.
Mr D Saville B Com (Hons) BSc (Hons) FCA FAICD	November 2014	Non-Independent	Chartered Accountant with experience in corporate finance, and has held directorships in the utility, water, airport, oil & gas & technology sectors. He was a founding director of Infratil Limited and is currently a director of listed companies, Cue Energy Resources Limited, Somers Limited and West Hamilton Holdings Limited. In addition, he is a director of HRL Morrison & Co, ICM Limited, Vix Technology & Zeta Energy Pte Limited. He is a Fellow of Chartered Accountants Australia and New Zealand, the Financial Services Institue of Australia, and of the Australian Institute of Company Directors.
Mr M Tume BBS	February 2012	Independent	BBS and Dip Banking Studies, Massey University. Hunter Fellowship recipient, Victoria University. 25+ years infrastructure and finance: senior roles in investment banking, capital markets, asset and liability management, and risk control. Other Directorships: New Zealand Refining Company, Chairman of Infratil Limited, RA 2014 Pty Limited, Chairman RA (Holdings) 2014 Pty Limited, Rearden Capital Pty Limited, Netlogix Australia Pty Ltd and Chairman Te Atiawa Iwi Holdings Management Limited. Member of the Maori Trustee Advisory Board.

Independent Directors

A majority of the board are independent directors.

The board has determined in terms of the NZX Listing Rules that as at 30 June 2017, Mr R J Finlay, Dr R Archer, Mr R Ritchie and Mr M Tume are independent directors.

Mr D Saville is not an independent director because of his association with Zeta Energy Pty Ltd, Bermuda Commercial Bank Ltd and UIL Ltd which together are a substantial shareholder in New Zealand Oil & Gas Ltd.

Board Proceedings

The board meets on a formal scheduled basis every two months, and holds other meetings as required. The chairman and the chief executive establish the agenda for each board meeting. The chief executive otherwise keeps the board informed of material or potentially material matters between board meetings. A report is prepared for each meeting that, in addition, includes: updates on exploration activities; summaries of new business opportunities; an update on human resources and facilities; a stakeholder engagement update and other reports as relevant. Key strategic issues and opportunities are also presented to the board by management as part of each meeting.

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

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

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

Board Committees

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

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

As at 30 June 2017, the members of the Audit Committee were Mr Tume (Chairman), Mr Finlay and Mr Saville. The Committee is to be composed of three non-executive directors with a majority being independent. The chairman of the board is not to also be the chairman of the Audit Committee. At least one member is to have an accounting or financial background. The Committee meets these requirements.

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

The Committee composition is to be three non-executive directors, with a majority being independent. The members of the Nomination and Remuneration Committee as at 30 June 2017 were Dr Archer (Chair), Mr Finlay and Mr Ritchie (all of whom are independent directors). The Committee is required to meet at least twice a year, in June and in December, and may invite management to participate.

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

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

As at 30 June 2017, the members of the HSSE Committee were Mr Ritchie (Chairman), Mr Finlay and Dr Archer. The Committee therefore has majority of independent directors. The Committee is to meet at least four times a year and may call upon, and have access to, resources for additional information or advice including external consultants.

Director	**Board Meeting**	**Audit Committee**	**Nominations & Remuneration Committee**	**HSSE**
Rodger Finlay	10/10	2/2	3/3	3/3
Dr Rosalind Archer	10/10	-	3/3	2/3
Rod Ritchie	9/10	-	2/3	3/3
Duncan Saville	10/10	2/2	-	-
Mark Tume	10/10	2/2	-	-

Responsibilities of the Board

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

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

Delegation to Management

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

- Health and Safety Policy;
- Environment Policy;
- Code of Business Conduct and Ethics;
- Communications, Market and Social Media Disclosure Policy;
- Securities Trading Policies for Directors, Employees and Dedicated Contractors;
- Directors' Interests Policy;
- Protected Disclosure (Whistleblower) Policy;
- Diversity Policy;
- Delegated Authorities Manual;
- Remuneration and Performance Appraisal Policy;
- Treasury Policy;
- ETS Obligations and Carbon Liability: Transactions Policy;
- Email and Internet Use Policy;
- Anti-Harassment Policy; and
- Drugs and Alcohol Policy.

These policies are reviewed regularly. The board may establish other policies and practices to ensure it fulfils its functions.

Health and Safety Policy

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

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

The full Health and Safety Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/192**

Environment Policy

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

All employees, contractors and joint venturers engaged in activities under the Company's operational control are responsible for applying this policy. The Company's managers are responsible for promoting the policy in non-operated joint ventures.

The full Environment Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/191**

Code of Business Conduct and Ethics

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

Company representatives are required to:

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

The Code addresses in detail issues such as:

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

The Code of Business Conduct and Ethics is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/188**

Communications, Market and Social Media Disclosure Policy

The Company is committed to maintaining a high standard of communication and to providing timely, full and accurate information to shareholders and other stakeholders. The Company is committed to compliance at all times with its obligations, as an NZX listed Company, to provide continuous disclosure to the market and strives to make those disclosures in a way that is clear, concise and effective.

The Communications, Market Disclosure and Social Media Policy's purpose is to reinforce the Company's commitment to the continuous disclosure obligations imposed by law and stock exchange rules, to describe the processes to ensure compliance, to outline the Company's general communications approach aimed at ensuring timely and accurate information is provided to shareholders, market participants and market observers and provide ground rules for the use of social media.

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

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

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

The Communications, Market and Social Media Disclosure Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/189**

Shareholders and interested parties can subscribe via the website to receive notice of the Company's market announcements by email. The Company issues annual, interim, and quarterly reports. Security holders can elect to receive the annual and interim reports in printed or electronic format. Security holders can elect to receive quarterly reports in electronic format. These documents are also posted on the Company's website in a clearly marked Company Reports section which is located within the investor section **www.nzog.today**

Securities Trading Policies

The Company's Securities Trading Policies set out procedures about when and how an employee, dedicated contractor or director can deal in company securities. These policies are consistent with the Financial Markets Conduct Act 2013 and its insider trading procedures, and they comply with the NZX listing rules. The board ensures that these policies are up-to-date and compliant at all times with changes to the law and to NZX listing rules.

The Securities Trading Policies are available on the Company's website at:
For directors -
www.nzog.com/dmsdocument/196
For employees and contractors -
www.nzog.com/dmsdocument/195

Diversity Policy

Through its Diversity Policy the company is committed to an inclusive workplace that embraces diversity.

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

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

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

With respect to the provision of the Diversity Policy, the board has determined that the Company has complied with the policy.

The Diversity Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/93**

The following table shows the number of men and women across the organisation (excluding contractors) as at 30 June 2017, and compares that to numbers as at 30 June 2016

30 June 2017	**Total**	**Number of Men**	**%**	**Number of Women**	**%**
Board	5	4	80%	1	20%
Senior Managers*	6	4	67%	2	33%
Other Employees	10	3	30%	7	70%

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

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

Directors Interests Policy

The directors are required to recognise that the possibility of conflict of interest exists, and are expected to declare potential conflict of interest situations to the board and manage conflicts of interest in accordance with the Directors' Interests Policy, the Code of Business Conduct and Ethics, and the Company's Constitution. The Company maintains an interests register in compliance with the Companies Act 1993, which records particulars of certain transactions and matters involving directors.

The Director's Interests Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/190**

Protected Disclosures (Whistleblower) Policy

The Company has a Protected Disclosures (Whistleblower) Policy that provides a procedure for company employees and contractors to raise concerns or make disclosures about what they observe happening at work. The purpose is to facilitate disclosure and investigation of serious wrongdoing. It provides a mechanism for concerns being raised and dealt with at an early stage and in an appropriate manner and that the person making the report is protected from any adverse consequences where the concern is raised in good faith.

The Protected Disclosures (Whistleblower) Policy is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/194**

Delegated Authorities Manual

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

Anti-Harassment Policy

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

Remuneration and Performance Appraisal Policy

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

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

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

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

Drugs and Alcohol Policy

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

Recognising and Managing Risk

The Company has a risk management system framework, which outlines the Company's approach to risk management. It provides a framework on how to apply consistent and comprehensive risk management practices across all functional areas of the Company's business. The Risk Management System Framework is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/1**

A central Company risk register, which considers the risks, reviews the controls, assigns ownership of a risk and tracks treatment plans, is maintained. Risk assurance is provided through a prioritised programme of audits and internal review.

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

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

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

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

The HSSE Committee reviews specific risks at each meeting of the committee and, at least annually, reviews the risk register and framework document to satisfy itself that the system continues to be sound. The Board HSSE Committee Charter, is available in the corporate governance section of the Company's website at **www.nzog.com/dmsdocument/202**

Corporate Governance Best Practice Codes

The Company actively monitors its compliance with corporate governance best practice. This includes assessing compliance with the NZX Listing Rules and Corporate Governance Best Practice Code (Appendix 16) (NZX code). The Company is compliant with these rules and guidelines except as otherwise noted below:

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

NZX Code Checklist - Comply or Explain

No.	NZX Code Recommendation	✔ I ✗	Explanation of non-compliance
1	**Principle 1 – Code of Ethical Behaviour** Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation.		
1.1	The board should document minimum standards of ethical behaviour to which the issuer's directors and employees are expected to adhere (a code of ethics).	✔	
	The code of ethics and where to find it should be communicated to the issuer's employees. Training should be provided regularly. The standards may be contained in a single policy document or more than one policy.	✔	We note that in the reporting period training was not specifically provided to employees on the Company's Code of Business Conduct and Ethics policy, however the policy is readily available to all employees via the intranet system and the company's values, which are incorporated into the employees' STI scheme, relate in nature to the policy.
	The code of ethics should outline internal reporting procedures for any breach of ethics, and describe the issuer's expectations about behaviour, namely that every director and employee:	✔	
	a) acts honestly and with personal integrity in all actions;	✔	
	b) declares conflicts of interest and proactively advises of any potential conflicts;	✔	
	c) undertakes proper receipt and use of corporate information, assets and property;	✔	
	d) in the case of directors, gives proper attention to the matters before them;	✔	
	e) acts honestly and in the best interests of the issuer, shareholders and stakeholders and as required by law;	✔	
	f) adheres to any procedures around giving and receiving gifts (for example, where gifts are given that are of value in order to influence employees and directors, such gifts should not be accepted);	✔	
	g) adheres to any procedures about whistle blowing (for example, where actions of a whistle blower have complied with the issuer's procedures, an issuer should protect and support them, whether or not action is taken); and	✔	
	h) manages breaches of the code.	✔	
1.2	An issuer should have a financial product dealing policy which applies to employees and directors.	✔	

No.	NZX Code Recommendation	✔ I ✗	Explanation of non-compliance
2	**Principle 2 – Board Composition & Performance** To ensure an effective board, there should be a balance of independence, skills, knowledge, experience and perspectives.		
2.1	The board of an issuer should operate under a written charter which sets out the roles and responsibilities of the board. The board charter should clearly distinguish and disclose the respective roles and responsibilities of the board and management.	✔	
2.2	Every issuer should have a procedure for the nomination and appointment of directors to the board.	✔	
2.3	An issuer should enter into written agreements with each newly appointed director establishing the terms of their appointment.	n/a	There were no newly appointed directors in the reporting period. The Company notes that it has entered into disclosure agreements with each director which addresses director obligations around disclosure of relevant interests in securities and contracts. However, for new board appointments the Company intends to extend the agreements to cover terms of appointment.
2.4	Every issuer should disclose information about each director in its annual report or on its website, including a profile of experience, length of service, independence and ownership interests.	✔	
2.5	An issuer should have a written diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving diversity (which, at a minimum, should address gender diversity) and to assess annually both the objectives and the entity's progress in achieving them. The issuer should disclose the policy or a summary of it.	✔	
2.6	Directors should undertake appropriate training to remain current on how to best perform their duties as directors of an issuer.	✗	Training for directors was not facilitated by the Company during the reporting period, however the Company has robust policies around director duties and the Company's directors typically hold multiple directorships and memberships and therefore training may have been provided via those avenues.
2.7	The board should have a procedure to regularly assess director, board and committee performance.	✔	
2.8	The Chair and the CEO should be different people.	✔	

No.	NZX Code Recommendation	✔ I ✗	Explanation of non-compliance
3	**Principle 3 – Board Committees** The board should use committees where this will enhance its effectiveness in key areas, while still retaining board responsibility.		
3.1	An issuer's audit committee should operate under a written charter. Membership on the audit committee should be majority independent and comprise solely of non-executive directors of the issuer. The chair of the audit committee should not also be the chair of the board.	✔	
3.2	Employees should only attend audit committee meetings at the invitation of the audit committee.	✔	
3.3	An issuer should have a remuneration committee which operates under a written charter (unless this is carried out by the whole board). At least a majority of the remuneration committee should be independent directors. Management should only attend remuneration committee meetings at the invitation of the remuneration committee.	✔	
3.4	An issuer should establish a nomination committee to recommend director appointments to the board (unless this is carried out by the whole board), which should operate under a written charter. At least a majority of the nomination committee should be independent directors.	✔	
3.5	An issuer should consider whether it is appropriate to have any other board committees as standing board committees. All committees should operate under written charters. An issuer should identify the members of each of its committees, and periodically report member attendance.	✔	
3.6	The board should establish appropriate protocols that set out the procedure to be followed if there is a takeover offer for the issuer including any communication between insiders and the bidder. It should disclose the scope of independent advisory reports to shareholders. These protocols should include the option of establishing an independent takeover committee, and the likely composition and implementation of an independent takeover committee.	✗	The Board is yet to adopt formal takeover protocols however formulation of appropriate protocols is part of a project currently being undertaken by management of the Company.

No.	NZX Code Recommendation	✔ I ✗	Explanation of non-compliance
4	**Principle 4 – Reporting & Disclosure** The board should demand integrity in financial and non financial reporting, and in the timeliness and balance of corporate disclosures.		
4.1	An issuer's board should have a written continuous disclosure policy.	✔	
4.2	An issuer should make its code of ethics, board and committee charters and the policies recommended in the NZX Code, together with any other key governance documents, available on its website.	✔	
4.3	Financial reporting should be balanced, clear and objective. An issuer should provide non financial disclosure at least annually, including considering material exposure to environmental, economic and social sustainability risks and other key risks. It should explain how it plans to manage those risks and how operational or non financial targets are measured.	✔	
5	**Principle 5 – Remuneration** The remuneration of directors and executives should be transparent, fair and reasonable.		
5.1	An issuer should recommend director remuneration to shareholders for approval in a transparent manner. Actual director remuneration should be clearly disclosed in the issuer's annual report.	✔	
5.2	An issuer should have a remuneration policy for remuneration of directors and officers, which outlines the relative weightings of remuneration components and relevant performance criteria.	✔	
5.3	An issuer should disclose the remuneration arrangements in place for the CEO in its annual report. This should include disclosure of the base salary, short term incentives and long term incentives and the performance criteria used to determine performance based payments.	✔	
6	**Principle 6 – Risk Management** Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks.		
6.1	An issuer should have a risk management framework for its business and the issuer's board should receive and review regular reports. A framework should also be put in place to manage any existing risks and to report the material risks facing the business and how these are being managed.	✔	
6.2	An issuer should disclose how it manages its health and safety risks and should report on their health and safety risks, performance and management.	✔	

No.	NZX Code Recommendation	✔ I ✗	Explanation of non-compliance
7	**Principle 7 – Auditors** The board should ensure the quality and independence of the external audit process.		
7.1	The board should establish a framework for the issuer's relationship with its external auditors. This should include procedures:	✗	Although there is no formal framework, the Company's practice addresses these elements via the function and responsibilities of the Audit Committee. Pursuant to the Company's Audit Committee Charter, the Audit Committee has the responsibility to provide an avenue of communication between auditors and the Board and is to manage the relationship with the external auditors including selection and approval of the engagement letter, setting audit fees and determining non-audit functions.
	a) for sustaining communication with the issuer's external auditors;	✗	
	b) to ensure that the ability of the external auditors to carry out their statutory audit role is not impaired, or could reasonably be perceived to be impaired;	✗	
	c) to address what, if any, services (whether by type or level) other than their statutory audit roles may be provided by the auditors to the issuer; and	✗	
	d) to provide for the monitoring and approval by the issuer's audit committee of any service provided by the external auditors to the issuer other than in their statutory audit role.	✗	
7.2	The external auditor should attend the issuer's Annual Meeting to answer questions from shareholders in relation to the audit.	✔	
7.3	Internal audit functions should be disclosed.	✗	The Company does not have an internal audit function. The process employed for evaluating and improving the effectiveness of risk management and internal control processes is: • risks are formally reviewed by risk owners; • management regularly reviews the risk register to ensure adherence and continuous improvement; • the HSSE Committee regularly reviews the risk register, with a particular emphasis on reducing key risks to as low as reasonably practicable; • for specific operational activities (including seismic acquisition campaigns), the board reviews the intended operational activity against activities related to elements of the Company's HSSE management framework to ensure a compliant work programme, achieving desired objectives safely; and • after action reviews (AAR) of an operational phase of a project are undertaken by the HSSE Advisor and project team, to identify improvement in control processes. The AAR is then reviewed by the HSSE Committee.

No.	NZX Code Recommendation	✔ | ✗	Explanation of non-compliance
8	**Principle 8 – Shareholder Rights & Relations** The board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer.		
8.1	An issuer should have a website where investors and interested stakeholders can access financial and operational information and key corporate governance information about the issuer.	✔	
8.2	An issuer should allow investors the ability to easily communicate with the issuer, including providing the option to receive communications from the issuer electronically.	✔	
8.3	Shareholders should have the right to vote on major decisions which may change the nature of the company in which they are invested in.	✔	
8.4	Each person who invests money in a company should have one vote per share of the company they own equally with other shareholders.	✔	
8.5	The board should ensure that the annual shareholders notice of meeting is posted on the issuer's website as soon as possible and at least 28 days prior to the meeting.	✔	

Shareholder Information

Stock Exchange Listing

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

Securities On Issue

As at 15 August 2017 New Zealand Oil & Gas Limited had the following securities:

Listed Ordinary Shares	Unlisted Partly Paid Shares
159,428,718	8,420,000
11,147	21

Top 20 Shareholders

As at 4 September 2017

Holder	Ordinary Shares	%
JPMorgan Chase Bank NA NZ Branch - Segregated Clients Acct - Nzcsd <CHAM24>	28,430,523	17.82
HSBC Nominees (New Zealand) Limited - NZCSD <HKBN90>	13,481,324	8.45
H & G Limited	13,288,357	8.33
Citibank Nominees (New Zealand) Limited - NZCSD <CNOM90>	5,595,851	3.51
Resource Nominees Limited	4,745,643	2.97
Leveraged Equities Finance Limited <Non Resident 5 Pct A/C>	4,485,930	2.81
Sik-On Chow	2,140,000	1.34
Public Trust Forte Nominees Limited - NZCSD	1,554,649	0.97
Accident Compensation Corporation - NZCSD <ACCI40>	1,544,920	0.97
Custodial Services Limited <A/C 16>	1,431,140	0.90
Radford Associates Pty Limited	1,309,195	0.82
Riuo Hauraki Limited	1,250,000	0.78
Ronald James Woodrow	1,128,060	0.71
Nicholas Theobald Sibley & Sally Gay Sibley	1,000,000	0.63
HSBC Nominees (New Zealand) Limited A/C State Street -NZCSD <HKBN45>	906,642	0.57
R G H Holdings Limited	836,252	0.52
ASB Nominees Limited <414354 ML - A/C>	835,000	0.52
Twin Peaks Farming Limited	814,000	0.51
FNZ Custodians Limited <Dta Non Resident A/C>	799,702	0.50
FNZ Custodians Limited	785,103	0.49

Substantial Shareholders

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

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

According to the company's records and Substantial Product Holding Notices previously released to NZX, as at 30 June 2017, the following Substantial Product Holder Notices were received since the date of the last Annual Report, in respect of holdings of ordinary shares of New Zealand Oil & Gas Limited:

Date	Shareholder	Shares Held	% of Issued Capital
19/09/16	H & G Limited	16,800,000	5.26%
30/09/16	Zeta Energy Pte Ltd	67,605,896	21.18%
22/11/16	H & G Limited	20,000,000	6.27%
02/05/17	H & G Limited	23,292,281	7.3%
15/06/17	H & G Limited	13,319,845	8.35%

JPMorgan Chase Bank NA NZ Branch and HSBC Nominees (New Zealand) Limited are above 5% but hold the shares on behalf of a number of beneficial shareholders.

Distribution of Security Holders

As at 30 August 2017

Holding Range	Holder Count	Holding Quantity	Holding Quantity %
1 - 99	254	8,551	0.01
100 - 199	133	18,674	0.01
200 - 499	2,430	764,471	0.48
500 - 999	1,769	1,255,598	0.79
1,000 - 1,999	1,691	2,372,246	1.49
2,000 - 4,999	2,278	7,168,455	4.50
5,000 - 9,999	1,148	7,875,913	4.94
10,000 - 49,999	1,103	21,801,269	13.67
50,000 - 99,999	132	8,832,836	5.54
100,000 - 499,999	93	18,288,616	11.47
500,000 - 999,999	12	8,193,213	5.14
1,000,000 - 9,999,999,999,999	10	82,848,876	51.97
Total	**11,053**	**159,428,718**	**100%**

On 31 August 2017 there were 2817 holders with less than a minimum holding of shares as determined by the NZX (under 500 shares).

Trading Statistics

For the 12 months ended 30 June 2017	High	Low	Volume
NZX (Trading Code NZO)	0.67	0.457	

Share Buy-backs

On 16 September 2016 the Company bought back 16,740,429 ordinary shares at an average price of $0.55 per share through a tender offer. The tender offer was part of a programme in place to buy back up to 64 million shares under section 63 of the Companies Act and pursuant to the approval of shareholders received at the special meeting of shareholders held on 28 August 2015. The shares were cancelled upon acquisition.

Approval for the buyback lapsed on 9 March 2017.

Targeted ESOP Share Buyback

On 23 August 2016, the Board resolved that the Company may buy back some or all of the employee share ownership plan (ESOP) shares required to be sold by the ESOP plan company, off-market, during the period from 13 October 2016 until 27 September 2017, up to a maximum of 5,000,000 shares.

On 8 December 2016 and 15 December 2016 a total of 3,682,000 forfeited ESOP shares were converted to fully paid ordinary shares, bought back under the targeted ESOP share buyback and then cancelled.

Capital return

On 28 April the Company received High Court orders approving a return of $100 million capital by way of a scheme of arrangement under Part 15 of the Companies Act 1993. The capital return was approved at a special meeting of shareholders on 12 April 2017 with the support of approximately 99% of those who voted on the scheme. On 12 May 2017 one out of every two ordinary shares was cancelled for a payment of NZ$0.62724388 per cancelled share. Part-paid shares issued as part of the company's Employee Share Ownership Plan did not participate in the scheme.

NZX Waivers

On 14 June 2017, the Company received an NZX Waiver from NZX Listing Rule 9.2.1 in relation to its Kupe acquisition transaction with Mitsui E & P Australia Pty Limited (**Mitsui**) (the **Transaction**). Mitsui was considered to be a related party of the Company's for the purposes of NZX Listing Rule 9.2.3(c) as both parties were parties to the Kupe Joint Venture within six months of the Transaction.

The waiver was provided on the conditions that:

1.) the directors of the Company certified, via an approved directors' certificate, that the Transaction has been negotiated, agreed and entered into on an arm's length and commercial basis, in their opinion the Transaction represents fair value and is fair and reasonable to the Company and its shareholders who are not related to or associated persons of Mitsui; and Mitsui did not influence the final decision of the board to enter into the Transaction; and

2.) The waiver, its conditions and the implications of the waiver are disclosed in the Company's next annual report.

Receiving this waiver means the Company did not have to seek shareholder approval for the transaction with a related party (Mitsui).

Dividend Payments and Reinvestment Plan Dividend Payments

Dividend Payments

The company paid a fully imputed final dividend for the 2016 year of 4 cents per share, on 25 October 2016. No further dividend payments have been made during the financial year.

Dividend Reinvestment Plan

The Dividend Reinvestment Plan will not apply to future dividends until advised otherwise.

Full Terms and Conditions of the Plan and the Participation Notice are available on the company's website at **www.nzog.com/drp**

Direct Crediting of Dividends Payments

To minimise the risk of fraud and misplacement of dividend cheques shareholders are strongly recommended to have all payments made by way of direct credit to their nominated New Zealand or Australian bank account. This can be done by simply giving written notice to the share registry, Computershare Investor Services Ltd, Private Bag 92119, Auckland, New Zealand. Email: enquiry@computershare.co.nz

Share Registries

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

Directors' Remuneration

The total remuneration and other benefits to directors for services in all capacities during the year ended 30 June 2017 was:

Mr R J Finlay	$120,000
Dr Archer	$70,000
Mr R Ritchie	$70,000
Mr D Saville	$60,000
Mr M Tume	$70,000

Cue Directors' Remuneration

	AUD	NZD
Grant Worner	$442,583	$468,689
Duncan Saville	$32,609	$34,532
BH Koh	$43,505	$46,071
BL Smith*	$29,959	$31,726
ATN Knight*	$9,986	$10,575

*Resigned during the year.

Directors' Securities Interests

The interests of Directors in securities of the Company at 30 June 2017 were:

	Direct Interest	Indirect Interest
Mr R J Finlay	-	836,252*
Mr D Saville	-	33,802,947**

* Mr Finlay holds 836,252 ordinary shares through RGH Holdings Limited for which Mr Finlay is the sole director and a shareholder.

** 27,103,776 ordinary shares held by Zeta Energy Pte Ltd (a company Mr Saville is a Director of), 2,514,250 ordinary shares held by Bermuda Commercial Bank Ltd and 3,457,576 ordinary shares held by UIL Limited. Mr Saville has a material indirect interest in the shares held by these companies though an indirect shareholding in UIL Limited (which is the indirect controlling shareholder of Zeta Energy Pte Ltd) and Somers Ltd (which owns 100% of Bermuda Commercial Bank Ltd). Mr Saville is also a shareholder and a Director of ICM Ltd which is the investment adviser to or the portfolio manager of Zeta Energy Pte Ltd, Bermuda Commercial Bank Ltd and UIL Limited. Zeta Energy Pte Ltd holds approximately 50.4% in Pac Pacific Petroleum NL. Zeta Energy Pte Ltd and Pan Pacific Petroleum NL are related body corporates. Pan Pacific Petroleum NL is the holder of 727,345 ordinary shares in New Zealand Oil & Gas.

Directors' Interests Register

Directors' interests recorded in the Interests Register of the Company as at 30 June 2017 are detailed below. Notices given or adjusted during the financial year ended 30 June 2017 are marked with an asterisk (*). Each such Director will be regarded as interested in all transactions between the Company and the disclosed entity.

Mr R J Finlay	
Mundane Asset Management	Chairman
Moeraki Ltd	Director
Rural Equities Ltd	Deputy Chairman (Chair of Audit Committee) and Shareholder
Radio New Zealand Board	Governor
Dr Archer	
Capricorn Solutions Ltd	Director
University of Auckland Geothermal Institute*	Director
Mr R Ritchie	
NIL	
Mr D Saville*	
Zeta Energy Pte Ltd [1]	Director
ICM Ltd [2]	Chairman and Shareholder
HRL Morrison & Co Ltd	Director
Somers Ltd	Director
West Hamilton Ltd	Director
Cue Energy Resources Ltd*	Director

[1] Zeta Energy Pte holds approximately 50.4% of Pan Pacific Petroleum and an interest in Seacrest L.P. Zeta Energy Pte is undertaking a full takeover of Pan Pacific Petroleum.

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

Mr M Tume	
Yeo Family Trustee Ltd	Director
Long Board Ltd	Director
Welltest Ltd	Director
New Zealand Refining Company Ltd	Director
Koau Capital Partners	Director
Maori Trustee	Member of the Advisory Board
Infratil (and related subsidiaries) [3]	Chairman and Shareholder
RA 2014 Pty Ltd	Director
RA (Holdings) 2014 Pty Ltd	Chairman
Rearden Capital Pty Ltd	Director
Te Atiawa Iwi Holdings Management Ltd	Chairman
Netlogix Australia Pty Ltd*	Director

[3] Infratil Limited holds 51% of Trust Power Limited.

Cue Directors' Interests

Directors of Subsidiary, Cue Energy and directors' interests.

Grant Worner	
Cue Energy Resources Ltd	Executive Chairman
Pan Pacific Petroleum	Director
New Guinea Energy Ltd	Director
Koh Ban Heng	
Cue Energy Resources Ltd	Director
Tipco Asphalt Ltd PLC	Director
Keppel Infrastructure Fund Management Pte Ltd	Director
Duncan Saville	
See interests under New Zealand Oil & Gas directors	
Brian L. Smith[1]	
Cue Energy Resources Ltd	Director
Andrew T. N. Knight[2]	
Cue Energy Resources Ltd	Director

[1] Resigned 24 November 2016 [2] Resigned 18 August 2016

Employees Remuneration

During the year ended 30 June 2017, 15 New Zealand Oil & Gas employees (including the chief executive) received individual remuneration over $100,000.

$100,001 - $110,000	1
$120,001 - $130,000	1
$130,001 - $140,000	1
$140,001 - $150,000	1
$200,001 - $210,000	2
$260,001 - $270,000	2
$290,001 - $300,000	2
$300,001 - $310,000	1
$450,001 - $460,000	1
$490,001 - $500,000	1
$500,001 - $510,000	1
$750,001 - $760,000	1

* Table includes payments to staff who left employment in New Zealand Oil & Gas during the year

Chief Executive Officer Remuneration for periods ended 30 June 2017

Salary Paid [1]	$547,515
Benefits [2]	$38,741
Cash STI [3]	$168,000
Total [4]	**$754,256**

[1] Includes 2 months in previous role as GM Exploration and Production, 3.5 months as Acting CEO and 6 months as CEO

[2] Benefits include Kiwisaver at 3%, health insurance and share based payment costs calculated using the Black Scholes option pricing model

[3] STI for current period, paid in August 2017 is discretionary

[4] Not included in the figues above is remuneration relating to the previous CEO who left the Group in August 2016. Salary and termination payments totalled $0.5 million

Cue Employees Remuneration

Remuneration converted to NZD at an average exchange rate of 0.9443.

$100,001 - $110,000	1
$110,001 - $120,000	1
$130,001 - $140,000	1
$150,001 - $160,000	1
$160,001 - $170,000	1
$170,001 - $180,000	1
$200,001 - $210,000	1
$220,001 - $230,000	1
$290,001 - $300,000	1
$310,001 - $320,000	1
$370,001 - $380,000	1
$1,560,001 - $1,570,000 [5]	1

[5] Includes termination payment

Cue Chief Executive Officer Remuneration for period ended 30 June 2017

	AUD	NZD
Salary director [6]	$75,000	$79,424
Consulting fee	$347,967	$368,492
Benefits	$19,616	$20,773
Total	**$442,583**	**$468,689**

[6] Includes remuneration for directorship of Cue

Officers Securities Interests

The interests of the current Company Officers in securities of the Company at 30 June 2017 were:

- Andrew Jefferies in respect of 400 ordinary shares and 1,937,000 unlisted partly paid shares
- Paris Bree in respect of 238,000 unlisted partly paid shares
- Catherine McKelvey in respect of 170,000 unlisted partly paid shares
- Dr Chris McKeown in respect of 489,000 unlisted partly paid shares
- John Pagani in respect of 521,000 unlisted partly paid shares
- Michael Wright in respect of 636,000 unlisted partly paid shares

Donations

There were no donations during the year.

Directors' and Officers' Liability Insurance

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

Corporate Directory

DIRECTORS

Rodger Finlay
Chairman

Dr Rosalind Archer

Rod Ritchie

Duncan Saville

Mark Tume

MANAGEMENT

Andrew Jefferies
Chief Executive

Paris Bree
General Counsel and Company Secretary

Catherine McKelvey
Chief Financial Officer

Dr Chris McKeown
Vice President Exploration & Production

John Pagani
External Relations Manager

Michael Wright
General Manager Commercial

REGISTERED AND HEAD OFFICE

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New Zealand

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