

New Zealand Oil & Gas Limited
Interim Report

For the six months ended 31 December 2007





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Cover Image: The Apache pipe laying vessel

Six Month
Highlights

- Revenue of \$95.5 million
- Net Profit of \$41.4 million
- Dividend of 5.0c per ordinary share
- NZOG's share of Tui Oil Production 798,000 barrels
- 50% increase in estimated Tui reserves
- Significant progress on Kupe Project
- Successful float of Pike River Coal Ltd

High lights

The Tui FPSO "Umuroa"



CEO's Report



The half year ended 31 December 2007 was a transformational period for New Zealand Oil & Gas Limited. In a short timeframe NZOG has cemented its place as a significant petroleum producer, with a portfolio of production, development, exploration and investment assets. NZOG is in a healthy financial position and is able to pay a dividend and pursue an active growth strategy.

The undoubted success story of the period was Tui. On 30 July 2007 oil began flowing from the Tui Area Oil Fields, off the coast of Taranaki. Brought into production just four years after discovery, Tui is providing very strong revenue, which will allow NZOG to build further value for shareholders.

The Kupe Project, also off the Taranaki coast, made significant progress during the half year. The offshore platform was installed; drilling of the three development wells began; the specialist Apache vessel arrived to lay the offshore pipeline; and earthworks and civil works were largely completed at the onshore production site. In the first quarter of 2008 the offshore pipeline has been laid and the development wells have entered the reservoir - the 'pieces of the puzzle' are coming together and Kupe is on track for commercial production in mid-2009.

We have been carefully evaluating some promising exploration leads near Kupe and Tui. The Momoho prospect in the Kupe permit area will be drilled in 2008; there are near-field possibilities in the Tui permit area; while in the adjacent permit area PEP 38499 we are looking for Tui 'look-a-likes'. In July/August 2007 the Hector-1 and Taranui-1 wells were drilled, without finding significant hydrocarbons, but NZOG still has other attractive exploration leads in off-shore Taranaki.

On 20 July 2007 Pike River Coal Ltd was successfully floated as a separate company listed on the NZX and ASX. It has a separate management team and board, and the role of NZOG is now as the single largest investor in PRC. The mine tunnel is getting ever closer to completion and PRC looks set to benefit from record international coking coal prices.

We were also aware of the need to build up our human resources. Having committed to a business development path, you need the right people. We have successfully recruited for growth, bringing in senior technical and corporate employees. We now have the team to aggressively pursue a growth strategy.

On 1 July 2007, NZOG was a company with some important milestones to target on the road ahead. By 31 December 2007 many of those milestones had been achieved and in just six months the company had quite literally been transformed.

Financial Performance

For the six months ended 31 December 2007, NZOG recorded a net surplus of \$41.4 million from total revenue of \$95.5 million. This compares to a surplus of \$0.5 million and revenue of \$92,000 in the corresponding period a year earlier.

**Total revenue
for the half year -
\$95.5 million**



David Salisbury
Chief Executive

The Apache pipelaying vessel



The revenue figure includes \$84.2 million from Tui oil and a gain of \$11.2 million resulting from the successful float of Pike River Coal Ltd.

NZOG has approximately \$85 million of accumulated tax losses available for use in the 2007/08 year. In the expectation that all of these losses will be utilised, the company has paid provisional tax.

Dividend

The Board of NZOG has resolved to pay a fully imputed dividend for the 2007/08 financial year of 5.0c per ordinary share. This recognises an outstanding period and provides shareholders with an immediate share of that success.

The Board has also determined a new dividend policy. In future years a reasonable proportion of profit will be distributed by way of an annual dividend. It would be imprudent to give a more specific dividend forecast, due to the volatility of international oil prices, exchange rates, the lumpy nature of capital investment in the oil industry and the need to retain sufficient cash flows.

Tui Area Oil Fields

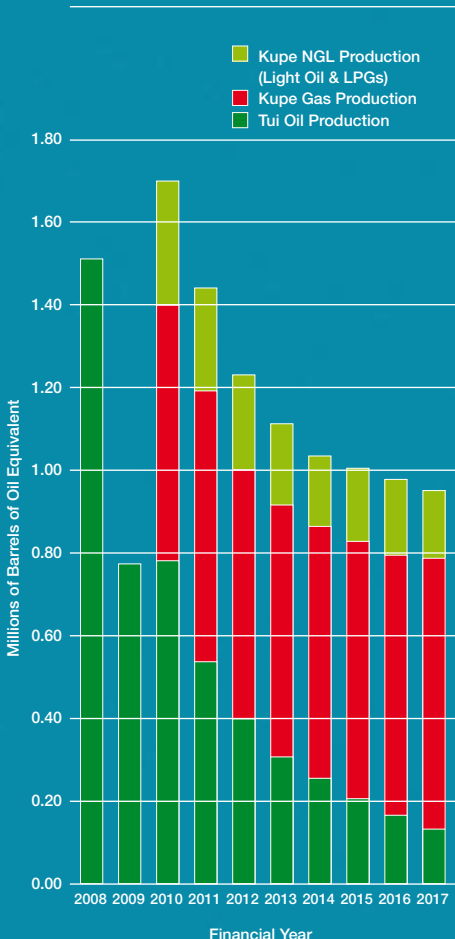
NZOG holds a 12.5% stake in the Tui Area Oil Fields, which comprise the Tui, Pateke and Amokura oil accumulations, 50km off the coast of Taranaki. They were discovered by NZOG and its partners in 2003/4 and the development decision was made in November 2005. Production began just 20 months later on 30 July 2007 – impressive for an offshore development.

Production is through four subsea completed wells individually tied back to a Floating Production Storage and Offloading (FPSO) vessel, *Umuroa*. The FPSO has been leased to the Tui joint venture on a fixed 5-year charter costing US\$135m, with five 1-year options to extend the charter. The capital cost of bringing the fields into production was US\$274m – NZOG's share US\$34m.

The field performance has been better than forecast. By the end of December, Tui had produced almost 6.4 million barrels of oil. NZOG's share for the period to 31 December 2007 was 798,000 barrels. Of this, 725,000 barrels were recorded as sales, producing revenue of \$84.2 million. 73,000 barrels, being crude stored on the FPSO at 31 December 2007, were recorded in the balance sheet as inventory at cost*. The high level of production continued into 2008 and by the end of February total production had reached 9.1 mmbbls, with NZOG's share 1.14 mmbbls.

In November, the Tui operator (AWE) announced a reserves upgrade to 41.7 million barrels – almost 50% higher than pre-development estimates. In simple terms, the field is much bigger than expected.

NZOG Forecast Annual Production of Oil & Gas



5.0 cents dividend to be paid for 2007/08 year

The determination of entitlements for the 5.0 cents dividend will be taken from the close of the share register on 4 April 2008. The dividend will be paid on 15 April 2008.

* NZOG has refined the wording for its revenue recognition policy, which is recorded in Note 2(M) of the Financial Statements, from that which appeared in the results announcement on 27 February 2008, consistent with the application of NZ IAS 18.14.



Combined with the excellent facility performance, this has led to revisions of the expected production for 2007/08. NZOG now expects its share of production for the current financial year to exceed 1.5 mmbbls.

In 2009 the Tui joint venture is planning to drill a further well – Tui-4H, to access some of the additional reserves identified in the field reassessment.

NZOG's share of Tui production in the 2007/08 year is expected to exceed 1.5 million barrels of oil

The primary market for the Tui area oil is the Asia Pacific region including Australian East Coast refineries. Tui oil is a high quality light sweet crude. It has generally been sold against the Tapis benchmark crude, which at times exceeded US\$100 a barrel during the period. The average price per barrel received by NZOG, net of quality and freight differentials, was just under US\$89.

While revenues are up, costs have been lower than budgeted. Costs of production per barrel of Tui oil have been substantially below the forecast of US\$10 a barrel.

NZOG achieved project payback – recovery of all exploration and development costs – in mid December.

As well as a commercial success, the Tui Area Oil Project has also had many noteworthy technical achievements. These include:

- Geosteerable drilling of the four horizontal oil production wells (a first for New Zealand);
- The longest horizontally drilled wells in New Zealand;
- Subsea wellhead completions (the first of its kind in New Zealand); and
- Modification of the FPSO to include an innovative swivel production turret, allowing the vessel to swivel for currents and weather whilst maintaining production output.

The FPSO also has additional tie-back options - if other adjacent prospects are discoveries this will allow rapid online production of additional reserves.

A disappointing event was a discharge of oil-contaminated water from the Umuroa in October 2007. A small amount of degraded oil was washed up along a section of the Taranaki coast. The Tui operator cooperated fully with authorities and immediate measures were taken to guard against any repeat of the incident. As the New Zealand based participant in the Joint Venture, NZOG will continue to demand the highest environmental performance from the operator and its contractors.

Kupe Project

The Kupe Project, 30kms off the coast of south Taranaki, remains on schedule to begin commercial production by mid-2009. NZOG has a 15% interest in Kupe, which will provide a long-term supply of gas, light oil and LPG. The proved and probable (2P)

reserves in the central field area (the area being developed) are estimated at 254 PJ of sales gas, 14.7 mmbbl of light oil and 1.1 million tonnes of LPG.

Important project milestones have been reached in recent months. The Ensco-107 drilling rig has installed the production platform and is batch drilling the three Kupe development wells. The offshore pipeline and the associated umbilical (which supplies power and chemicals to the platform) have been laid by the specialist vessel Apache on its first visit to New Zealand. The remaining work scope includes completion of the production wells and the onshore processing facilities.

The expected economics of the Kupe project have improved

The project has been significantly derisked in recent months. Higher oil and LPG prices are expected to more than offset the impact of increased capital costs experienced by the project. While Kupe is often referred to as a gas field, we expect around two-thirds of the revenues to come from liquids – light oil and LPG – produced with the gas. In NZOG's view, Kupe is a more attractive investment now than when the investment commitment was taken two years ago.

Kupe Production Station December 2007





LPG bullet being transported to site



Installing the Kupe offshore platform

The Kupe project remains on schedule to begin commercial production by mid-2009

Pike River Coal

The Pike River Coal mine is on the West Coast of the South Island, north of Greymouth. Pike River Coal Ltd is now a separately listed company, with NZOG retaining a stake of approximately 30% through ordinary shares, options and convertible notes.

The successful float of PRC was extremely important for NZOG, allowing us to concentrate on our core business of exploration and production.

In November 2007, PRC announced an 18 year agreement to transport its premium hard coking coal by rail to Port Lyttelton, significantly derisking the project. As at the end of December the tunnel was 84% complete.

In January 2008, PRC announced a \$60m rights issue and a US\$30m convertible bond issue to Liberty Harbor, to secure funding for the mine development through to commercial coal production. NZOG underwrote its \$17.5m share of the rights issue. The issue was well received, being oversubscribed by 5%. NZOG has maintained its' percentage holding in PRC.

PRC is forecasting coking coal production of 200,000 tonnes in the next financial year and is well positioned to take advantage of significantly higher international coking coal prices.

Pike River Coal is set to benefit from record international coking coal prices

Exploration

It is fair to say that in July and August 2007 there were disappointments for NZOG on the exploration front. The Hector and Taranui exploration wells in offshore Taranaki were not successful.

We use the best science ahead of drilling to reduce risk and high-grade opportunities. But even with this science, exploration is inherently high risk. Typically, there's around 20% chance of finding a commercial field – that means there's an 80% chance of failure.

Despite the lack of commercial success, the 2007 exploration programme was a valuable element in appraising the greater potential of the offshore Taranaki Basin. Together with the drilling of the Tui development wells it has given us better data for further evaluation of the

basin. Exploration activity remains strategically important in sustaining and increasing NZOG's petroleum reserves. The rewards of successful exploration justify the risks of exploration and it is through the drill-bit that the industry creates a lot of value for shareholders.

The easiest gains in terms of increasing reserves and bringing on new production can be from existing fields, in our case the Tui and Kupe assets. We are also looking closely at all the potential near-field prospects and leads, and the opportunity to tie them back into the developments.

Following the drilling of the Kupe development wells, the Joint Venture is scheduled to drill at the Momoho prospect, which is approximately 5km from the Kupe Central Field Area. A discovery of additional reserves at the Momoho location could potentially be developed via the Kupe facilities, including the offshore platform and pipeline to the onshore processing facility.

Near field prospects offer a lot of promise

There are also interesting leads adjacent to the Tui fields. 3D seismic data is being remapped to incorporate the results from the 2006-2007 Tui drilling campaign. The remapping of the entire permit is expected to better define leads such as Oi and Kahu. Drill-mature prospects could be targeted in a potential 2009 drilling campaign. Any future discoveries could be tied-back directly to the FPSO vessel Umuroa, which is processing oil from the Tui fields.

In May 2007 NZOG and its Tui partners acquired the Toke permit PEP 38499 immediately south of the Tui fields. The permit contains numerous leads including Toke, Matuku and Kakapo. A 2D Marine seismic survey was shot in June/July 2007. The mapping is expected to be completed by mid-year and should further delineate and define these leads. Drill-mature prospects could be drilled in a potential 2009 drilling campaign. The targets for this area are oil fields which could potentially be developed using a FPSO similar to that used for the Tui fields.

In December 2007, the NZ Government opened an Onshore Taranaki Basin Blocks offer. Twelve petroleum blocks are being offered and represent a total area approaching 4,000 square kilometres. The bidding round will close on 30 May 2008.

NZOG has reviewed the onshore blocks available and has high-graded blocks for

possible offers. We are also reviewing prospects being sold down by other companies and looking at other opportunities to acquire new exploration acreage.

Board membership

A new director has joined the Board of New Zealand Oil & Gas Limited. Andrew Knight is a General Manager with network infrastructure company Vector. Andrew has strong commercial and professional credentials, with experience in the management of diversified energy businesses and corporate merger and acquisition processes. Andrew took up his position as a non-executive director on 1 January 2008.

The Future

Tui is in production, Kupe is well down the development track, and there are some promising exploration opportunities in our existing portfolio. But the question of "What's next?" remains top of mind.

The NZOG Board has approved a growth strategy and set challenging targets, which essentially involve doubling the size of the business in the next 5 years.

Having committed to a business development path, you need the right people. We have recruited for growth, bringing in senior technical and corporate employees. We now have the team we need to pursue a growth strategy. That does not mean we have had an explosion in staff numbers. We now have 17 staff in total. It is a small, focused and highly capable team. We are delighted with the calibre of all the people we have on board, who are all experienced, professional and motivated.

NZOG is fully resourced for growth

NZOG remains committed to pursuing attractive exploration opportunities, both within its' existing acreage portfolio in the Taranaki region, and elsewhere. Taranaki alone will probably not provide sufficient opportunities for NZOG going forward.

We believe that New Zealand has good remaining prospectivity for oil and gas. However, it is unlikely that our growth targets will be met solely through the drill-bit. We are looking at all opportunities: exploration, asset purchase, and corporate acquisition. We are aiming for a larger portfolio of assets and opportunities. We will cherry-pick the best ones and let the less favourable ones go.

Share value

There has been significant de-risking in all three of the major projects that NZOG is involved in. Tui is producing successfully and delivering cash flows that have significantly exceeded forecasts. Pike River Coal has a coking coal mine that is only months from production development and has the funds needed to complete that development. The Kupe project is well advanced and will provide significant revenues from mid-2009. NZOG has all its funding needs in place and is not exposed to any of the turmoil on world financial markets.

This degree of progress and de-risking is very significant. We are continuing with a very active programme to encourage the market to recognise the true value of NZOG. The company is well positioned for growth and further realisation of shareholder value.

Oil & Gas Reserves

New Zealand Oil & Gas Ltd's interests in oil and gas reserves are in the Kupe and Tui fields, offshore Taranaki, New Zealand.

Proved and Probable (2P) Reserves as at 27 February 2008:

	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui (developed)	4.1			4.1
Kupe (undeveloped)	2.2	38	159	9.9
Total				14.0

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

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

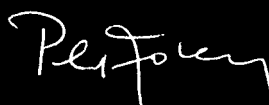
Proven reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic and operating conditions. Probable reserves are defined as those which have a 50% chance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

Directors' Declaration

In the opinion of the Directors of New Zealand Oil & Gas Limited, ("the Company"):

- (1) The financial statements and notes, set out in the relevant pages of the Interim Report comply with the accounting standards issued by the Institute of Chartered Accountants of New Zealand; and
- (2) The financial statements for the six months to 31 December 2007 and notes to those financial statements give a true and fair view of the financial position and performance of the Company; and
- (3) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Interim Report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.



P G Foley

Director

13 March 2008



R A Radford

Director

13 March 2008



New Zealand Oil & Gas

Financial Statements

Condensed Statement of Financial Performance

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	NOTES	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Revenue from continuing operations	5	95,490	92	4,234
Expenses, excluding finance costs	6	(29,979)	(5,301)	(10,692)
Net finance costs	6	(1,746)	1,174	9,472
Total expenses	6	(31,725)	(4,127)	(1,220)
Share of net loss of associate		(112)	-	-
Profit/(loss) before income tax and royalties		63,653	(4,035)	3,014
Income tax (expense)/benefit		(15,719)	4,526	3,747
Royalties expense		(6,528)	-	-
Profit for the period		41,406	491	6,761
Attributable to:				
Equity holders of Parent		41,406	538	7,059
Minority interest		-	(47)	(298)
		41,406	491	6,761
		CENTS	CENTS	CENTS
Earnings per share attributable to shareholders:				
Basic earnings per share	22	15.7	0.2	2.9
Diluted earnings per share	22	10.3	0.2	1.8

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 15 to 35.

Condensed Statement of Financial Position

AS AT 31 DECEMBER 2007

	NOTES	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Current assets				
Cash and cash equivalents	7	60,064	35,206	35,383
Receivables and prepayments	8	26,501	2,921	2,669
Inventories		499	72	32
Derivative financial instruments		-	-	372
Current tax receivables		-	2	-
Deferred expenditure		-	1,827	3,999
Total current assets		87,064	40,028	42,455
Non-current assets				
Investment in associates	10	51,810	2,280	2,280
Exploration and evaluation, development and production assets	12	158,366	140,334	218,450
Deferred expenditure		5,690	2,740	3,219
Property, plant and equipment		325	304	301
Intangible assets		86	203	188
Deferred tax assets		-	11,553	12,965
Other financial assets	13	3,543	15,188	5,537
Total non-current assets		219,820	172,602	242,940
Total assets		306,884	212,630	285,395
Current liabilities				
Payables and provisions	14	26,101	14,439	26,464
Borrowings	15	42,819	-	39,236
Derivative financial instruments		1,676	277	-
Current tax liabilities		-	-	459
Total current liabilities		70,596	14,716	66,159
Non-current liabilities				
Borrowings	16	23,219	18,947	16,261
Deferred tax liabilities		2,903	-	-
Restoration and rehabilitation provision		15,137	11,920	13,930
Total non-current liabilities		41,259	30,867	30,191
Total liabilities		111,855	45,583	96,350
Net assets		195,029	167,047	189,045
Equity				
Share capital	17	154,777	129,118	154,457
Reserves		(7,084)	232	(5,454)
Retained earnings		47,336	(591)	5,930
Parent entity interest		195,029	128,759	154,933
Minority interest		-	38,288	34,112
Total equity		195,029	167,047	189,045

The above statement of financial position should be read in conjunction with the accompanying notes on pages 15 to 35.

Condensed Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	ATTRIBUTABLE TO MEMBERS OF NEW ZEALAND OIL & GAS LIMITED				
	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED EARNINGS \$'000	MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2006	111,879	3,743	(1,129)	38,335	152,828
Changes in fair value of available for sale financial assets, net of tax	-	675	-	-	675
Foreign currency translation	-	(4,186)	-	-	(4,186)
Profit for half-year	-	-	538	(47)	491
Total recognised income and expense for the period	-	(3,511)	538	(47)	(3,020)
Shares issued	17,230	-	-	-	17,230
Options exercised	3	-	-	-	3
Partly paid shares issued	6	-	-	-	6
	17,239	-	-	-	17,239
Balance at 31 December 2006	129,118	232	(591)	38,288	167,047

	ATTRIBUTABLE TO MEMBERS OF NEW ZEALAND OIL & GAS LIMITED				
	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED EARNINGS \$'000	MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2006	111,879	3,743	(1,129)	38,335	152,828
Changes in fair value of available for sale financial assets, net of tax	-	(3,256)	-	-	(3,256)
Foreign currency translation	-	(5,941)	-	-	(5,941)
Profit for the year	-	-	7,059	(298)	6,761
Total recognised income and expense for the period	-	(9,197)	7,059	(298)	(2,436)
Shares issued	42,562	-	-	-	42,562
Options exercised	5	-	-	-	5
Partly paid shares issued	11	-	-	-	11
Gain on issue of shares to minorities	-	-	-	(3,925)	(3,925)
	42,578	-	-	(3,925)	38,653
Balance at 30 June 2007	154,457	(5,454)	5,930	34,112	189,045

	ATTRIBUTABLE TO MEMBERS OF NEW ZEALAND OIL & GAS LIMITED				
	ISSUED CAPITAL \$'000	RESERVES \$'000	RETAINED EARNINGS \$'000	MINORITY INTEREST \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2007	154,457	(5,454)	5,930	34,112	189,045
Foreign currency translation	-	(1,630)	-	-	(1,630)
Profit for half-year	-	-	41,406	-	41,406
Total recognised income and expense for the period	-	(1,630)	41,406	-	39,776
Shares issued	318	-	-	-	318
Partly paid shares issued	2	-	-	-	2
Minority interest reduction on deconsolidation	-	-	-	(34,112)	(34,112)
	320	-	-	(34,112)	(33,792)
Balance at 31 December 2007	154,777	(7,084)	47,336	-	195,029

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 15 to 35.

Condensed Cashflow Statement

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Cash flows from operating activities			
Receipts from customers	62,143	-	-
Interest received	1,382	1,662	2,147
Other revenue	-	24	114
Production expenditure	(7,221)	-	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)	(4,442)	(2,268)	(6,392)
Interest paid	(660)	(8)	(12)
Income taxes paid	(312)	(2)	-
Net cash inflow / (outflow) from operating activities	50,890	(592)	(4,143)
Cash flows from investing activities			
Repayment of loans by related parties	16,264	-	-
Exploration and evaluation expenditure	(4,308)	(4,961)	(8,353)
Development expenditure	(48,488)	(36,240)	(102,895)
Purchase property, plant and equipment	(241)	(88)	(171)
Security deposits	-	(2,287)	(2,914)
Net cash inflow / (outflow) from investing activities	(36,773)	(43,576)	(114,333)
Cash flows from financing activities			
Issues of shares	41	17,234	42,567
Issue of shares to minority interests	-	19,400	19,400
Proceeds from exercise of options	-	3	5
Borrowings	37,725	7,060	39,045
Proceeds from sale of equity investments	-	-	12,550
Convertible notes issued	-	-	7,500
Repayment of borrowings	(17,650)	(2,404)	(2,404)
Deferred expenditure	(3,368)	(1,740)	(3,738)
Other	-	-	(35)
Net cash inflow / (outflow) from financing activities	16,748	39,553	114,890
Net increase (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period	35,383	41,712	41,712
Cash decrease from deconsolidation of subsidiary company	(7,406)	-	-
Effects of exchange rate changes on cash and cash equivalents	1,222	(1,891)	(2,743)
Cash and cash equivalents at end of the period	60,064	35,206	35,383

The above cashflow statement should be read in conjunction with the accompanying notes on pages 15 to 35.

Notes to the Condensed Interim Financial Statements

31 DECEMBER 2007

1. General information

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

The condensed interim financial statements (hereafter referred to as the "financial statements") presented herewith as at and for the half year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 27 February 2008.

2. Summary of significant accounting policies

This condensed interim financial information for the half year ended 31 December 2007 has been prepared in accordance with Accounting Standard NZ IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2007.

These are the Group's first NZ IFRS financial reports and NZ IFRS 1, First-time Adoption of New Zealand Equivalents to International Financial Reporting Standards, has been applied.

(A) Basis of preparation of half-year financial report

BASIS OF MEASUREMENT

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available-for-sale assets.

FUNCTIONAL AND PRESENTATION CURRENCY

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

APPLICATION OF NZ IFRS 1

Financial statements of the Group until 30 June 2007 had been prepared in accordance with previous New Zealand Financial Reporting Standards (NZ FRS). NZ FRS differs in certain respects from NZ IFRS. When preparing the Group's interim financial report for the half year ended 31 December 2007, management has amended certain accounting and valuation methods applied in the previous NZ FRS financial statements to comply with NZ IFRS.

Reconciliations and descriptions of the effect of transition from previous NZ FRS to NZ IFRS on the Company's equity and its net income are given in note 23.

In preparing these financial statements in accordance with NZ IFRS 1 the Company and Group have applied certain optional exemptions from full retrospective application of NZ IFRS. Further details are given in note 23.

USE OF ESTIMATES AND JUDGMENTS

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

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

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration and development assets, the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation, mine and development assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves.

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate.

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

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of financial performance.

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

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates, except for the Employee Share Ownership Plan ("ESOP"), are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases (refer to note 10).

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

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

(iii) Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The financial statements include the Group's proportionate share of the joint ventures' 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.

(C) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Foreign operations

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

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

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

(D) Financial Instruments

(i) Non-derivative financial instruments

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

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group's investments in equity securities and certain joint ventures where the Group does not have joint control are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the statement of financial performance.

TRADE AND OTHER RECEIVABLES

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

INTEREST-BEARING BORROWINGS

Interest-bearing borrowings are classified as other non-derivative financial instruments.

TRADE AND OTHER PAYABLES

Trade and other payables are stated at cost.

OTHER

Cash and cash equivalents in the statement of financial position comprise cash at bank and deposits at call with an original maturity of three months or less. Cash also includes the Group's share of cash held as participant of joint ventures and cash held in a pre-completion reserve under the Group's interest bearing borrowing arrangements.

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

Subsequent to initial recognition, other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss.

(ii) Derivative financial instruments

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

TRADING INSTRUMENTS

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

CASH FLOW HEDGES

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

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

ECONOMIC HEDGES

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

SEPARABLE EMBEDDED DERIVATIVES

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

(iii) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible notes that can be converted to share capital and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the

compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognised in the statement of financial performance. Distributions to the equity holders are recognised against equity, net of any tax benefit.

(iv) Share capital

ORDINARY SHARES

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

REPURCHASE OF SHARE CAPITAL (TREASURY SHARES)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised in equity.

(E) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Development assets

The cost of tangible assets involved in development are capitalised as development assets under property, plant and equipment and are depreciated over their estimated useful lives.

(iii) Subsequent costs

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

(iv) Depreciation

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

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

Buildings	18 years
Plant and equipment	4-18 years
Motor vehicles	5 years
Furniture and fittings	5-8 years
Technical and computer equipment	2-5 years

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

Once production commences, production assets are amortised over the earlier of their useful life and the life of the proved and probable reserves on a units of production basis. Thus, the economic life of such equipment is dependent on future production and remaining reserves, and therefore varies from project to project.

(F) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the statement of financial performance.

ACQUISITIONS OF MINORITY INTERESTS

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

SUBSEQUENT MEASUREMENT

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

(ii) Research, exploration and evaluation expenditure and development expenditure

RESEARCH

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the statement of financial performance as an expense when it is incurred.

EXPLORATION AND EVALUATION

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

- (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or
- (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

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

Upon technical feasibility and commercial viability of an area of interest, Exploration and Evaluation assets for the area of interest is transferred to Development assets.

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

DEVELOPMENT

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

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 or coal production has commenced. Expenditure on production areas of interest and any future expenditure necessary to develop proven and probable reserves to meet current commitments under sales contracts, are amortised using the production output method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment.

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 statement of financial performance during the financial period, in which they are incurred.

AMORTISATION

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

(iii) Computer software

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

(G) Inventories

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

(H) Impairment of assets

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

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

(i) Impairment of equity instruments.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price. For this purpose prolonged is regarded as any period longer than nine months and significant as more than 20 percent of the original purchase price of the equity instrument.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the statement of financial performance.

(ii) Impairment of receivables

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

(iii) Non-financial assets

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

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 statement of financial performance. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed.

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

(iv) Exploration and evaluation assets

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

Any impairment loss is recognised as an expense in the statement of financial performance in the period.

(I) Goods and Services Tax (GST)

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

(J) Employee benefits

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

(K) Provisions

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

(i) Make good provision

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

(ii) Restoration and rehabilitation provision

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

(L) Borrowing costs

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

(M) Revenue recognition

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

(i) Sales of goods

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

(ii) Royalty income

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

(N) Leased assets

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

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

(O) Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, foreign currency gains, gains on hedging instruments that are recognised in the statement of financial performance and changes in the fair value of available for sale assets transferred from equity. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in the statement of financial performance. All borrowing costs are recognised in the statement of financial performance using the effective interest method.

(P) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of financial performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

ROYALTIES

Government royalties are treated as taxation arrangements when they are imposed under Government authority and when the calculation of the amount payable falls within the definition of "taxable profit". Current and deferred tax is then provided on the same basis as described above. Royalty arrangements that do not meet the criteria for treatment as a tax are recognised on an accruals basis.

(Q) Earnings per share

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

(R) Segment reporting

A segment is a separately identifiable component of the Group that is engaged in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

(S) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods but which the Group has not early adopted. The adoption of these following standards are not expected to have a material impact on the Group's financial statements:

IFRS 8, Operating Segments – (effective from annual periods beginning on or after 1 January 2009)

NZIAS 1, Presentation of Financial Statements (revised) – (effective from annual periods beginning on or after 1 January 2008).

NZIAS 23, Borrowing costs (revised) – (effective from annual periods beginning on or after 1 January 2009).

3. Transition to NZ IFRS

Basis of transition to NZ IFRS

Application of NZ IFRS 1

The Group's financial statements for the half year ended 31 December 2007 are the first financial statements that comply with NZ IFRS.

These financial statements have been prepared as described in note 2(A). The company has applied NZ IFRS 1 in preparing these financial statements.

The Group's transition date is 1 July 2006. The Group prepared its opening NZ IFRS financial position at that date. The reporting date of these financial statements is the half year ended 31 December 2007.

In preparing these financial statements in accordance with NZ IFRS 1, the company has applied the mandatory exceptions and certain of the optional exemptions from full retrospective application of NZ IFRS.

Exemptions from full retrospective application elected by the Group

The Group has elected to apply the following optional exemptions from full retrospective application:

(A) BUSINESS COMBINATIONS

The Group has applied the business combinations exemption in NZ IFRS 1. It has not restated business combinations that took place prior to the 1 July 2006 transition date. The application of this exemption is detailed in note 23.

(B) EMPLOYEE BENEFITS

The Group has elected to recognise all cumulative actuarial gains and losses as at 1 July 2006. The application of this exemption is detailed in note 23.

(C) CUMULATIVE TRANSLATION DIFFERENCES EXEMPTION

The Group has elected to set the previously accumulated cumulative translation to zero at 1 July 2006. This exemption has been applied to all subsidiaries in accordance with NZ IFRS 1. The application of this exemption is detailed in note 23.

(D) DESIGNATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group reclassified various securities as available-for-sale investments and as financial assets at fair value through profit and loss. The adjustments relating to NZ IAS 32 and NZ IAS 39 at the opening balance sheet date of 1 July 2007, the NZ IAS 32 and NZ IAS 39 transition date, are detailed in note 23.

(E) INSURANCE CONTRACTS EXEMPTION

The company does not issue insurance contracts; this exemption is not applicable.

(F) DECOMMISSIONING LIABILITIES INCLUDED IN THE COST OF PROPERTY, PLANT AND EQUIPMENT (PPE)

The Group recognises a provision in respect of environmental liabilities relating to contamination caused to land from the installation of assets and from its production processes. The exemption provided in NZ IFRS 1 from the full retrospective application of NZ IFRIC 1 has been applied to determine the adjustment required to PPE in respect of the obligation to decommission existing production facilities. The application of this exemption is detailed in note 23.

Reconciliations between IFRS and GAAP

The reconciliations in note 23 provide a quantification of the effect of the transition to NZ IFRS. The first reconciliation provides an overview of the impact on equity of the transition at 1 July 2006, 30 June 2007 and 31 December 2006.

4. Segment information

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

5. Revenue

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Petroleum sales	84,213	-	-
Gain on issue of shares in subsidiary	-	-	3,924
Gain on dilution of investment in subsidiary (see note 10)	11,201	-	-
Other income	76	92	310
Total revenue	95,490	92	4,234

6. Expenses

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Expenses, excluding finance costs, comprises the following classified by nature:			
Audit fees	25	58	100
Director fees	136	265	443
Legal fees	169	186	495
Employee expenses	1,300	1,000	2,509
Production costs (excluding amortisation)	7,221	-	-
Depreciation and amortisation expense	8,255	103	207
Petroleum and coal exploration expenditure provided for or written off	10,631	2,551	3,698
Other expenses	2,242	1,138	3,240
Total expenses, excluding finance costs	29,979	5,301	10,692
Profit before income tax includes the following specific expenses:			
<i>Depreciation</i>			
Buildings	6	-	1
Plant and equipment	-	50	99
Furniture and fittings	15	5	9
Computer hardware	20	18	36
Office equipment	10	4	8
Total depreciation	51	77	153
<i>Amortisation</i>			
Computer software	33	26	54
Production asset	8,171	-	-
Total amortisation	8,204	26	54
Total depreciation and amortisation	8,255	103	207
<i>Finance costs</i>			
Interest and finance charges paid/payable	897	90	591
Exchange losses on foreign currency balances	232	432	879
Net fair value loss on derivatives	2,048	-	-
Amortisation of finance costs	982	-	-
	4,159	522	1,470
<i>Finance income</i>			
Interest income	1,162	1,696	2,259
Exchange gains on foreign currency balances	1,251	-	88
Net gain on available for sale assets	-	-	7,966
Net fair value gain on derivatives	-	-	629
	2,413	1,696	10,942
Net finance cost/(income)	1,746	(1,174)	(9,472)

7. Cash and cash equivalents

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Cash at bank and in hand	9,960	13,043	5,178
Deposits at call	50,104	22,163	30,205
Total cash and cash equivalents	60,064	35,206	35,383

8. Receivables and prepayments

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Trade debtors	24,884	1,277	1,558
Interest receivable	82	34	162
Prepayments	1,224	1,155	403
Other	311	455	546
Total receivables and prepayments	26,501	2,921	2,669

9. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2(B):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASSES OF SHARES	EQUITY HOLDING	
			DECEMBER 2007 %	DECEMBER 2006 %
ANZ Resources Pty Limited	Australia	Ordinary	100	100
Australia and New Zealand Petroleum Limited	New Zealand	Ordinary	100	100
Kupe Royalties Limited	New Zealand	Ordinary	100	100
National Petroleum Limited	New Zealand	Ordinary	100	100
Nephrite Enterprises Limited	New Zealand	Ordinary	100	100
NZOG 38483 Limited	New Zealand	Ordinary	100	100
NZOG 38484 Limited	New Zealand	Ordinary	100	100
NZOG Deepwater Limited	New Zealand	Ordinary	100	100
NZOG Development Limited	New Zealand	Ordinary	100	100
NZOG Energy Limited	New Zealand	Ordinary	100	100
NZOG Offshore Limited	New Zealand	Ordinary	100	100
NZOG Resources Limited	New Zealand	Ordinary	100	100
NZOG Services Limited	New Zealand	Ordinary	100	100
NZOG Taranaki Limited	New Zealand	Ordinary	100	100
Oil Holdings Limited	New Zealand	Ordinary	100	100
Petroleum Resources Limited	New Zealand	Ordinary	100	100
Petroleum Equities Limited	New Zealand	Ordinary	100	100
Pike River Coal Limited (PRCL) (Note (ii))	New Zealand	Ordinary	31	61
Resource Equities Limited	New Zealand	Ordinary	100	100
Stewart Petroleum Company Limited	New Zealand	Ordinary	100	100

Notes:

- (i) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry.
- (ii) From the 20 July 2007 the group's investment in PRCL has changed from a subsidiary to an associate (see note 10 for details).

10. Investments in associates

Information relating to associates is set out below.

(a) Carrying amounts

NAME OF COMPANY	PRINCIPAL ACTIVITY	OWNERSHIP INTEREST			AS AT		
		31 DEC 2007 %	31 DEC 2006 %	30 JUN 2007 %	UNAUDITED HALF YEAR 31 DEC 2007 \$'000	UNAUDITED HALF YEAR 31 DEC 2006 \$'000	AUDITED FULL YEAR 30 JUN 2007 \$'000
Listed							
Pike River Coal Limited	Coal mine development	31	61	54	49,530	-	-
Unlisted							
NZOG Nominees Limited	Investment	50	50	50	2,280	2,280	2,280
					51,810	2,280	2,280

Each of the above associates is incorporated in New Zealand and have a balance date of 30 June.

For associate company NZOG Nominees Ltd equity accounting has not been applied as the amounts involved are not material.

On 20 July 2007 the group's investment in PRCL was diluted from 54% to 31% with PRCL being floated on the NZSX and ASX. From that date the investment in PRCL is shown as an associate.

NZOG's holding in PRCL comprises 62 million ordinary shares, 11 million options that are exercisable on or before 30 June 2009 and a \$3.5 million convertible note that matures on the 31 December 2008 (see note 13). The market value of NZOG's investment in PRCL at 31 December 2007 was \$70 million.

(b) Movements in carrying amounts

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Carrying amount at the beginning of the year	2,280	2,280	2,280
Share of surplus/(deficit) after income tax for the period	(112)	-	-
Recognition of PRCL as an associate investment	49,642	-	-
Carrying amount at the end of the period	51,810	2,280	2,280

11. Interests in joint ventures

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

NAME OF ENTITY	NOTES	INTERESTS HELD BY THE GROUP		
		UNAUDITED HALF YEAR 31 DECEMBER 2007	UNAUDITED HALF YEAR 31 DECEMBER 2006	AUDITED FULL YEAR 30 JUNE 2007
PML 38146 - Kupe		15.0%	15.0%	15.0%
PMP 38158 - Tui		12.5%	12.5%	12.5%
PEP 38483 - Hector		18.9%	18.9%	18.9%
PEP 38483 - Hector South Sub Block		12.5%	12.5%	12.5%
PEP 38729 - Felix	(i)	-%	75.0%	75.0%
PEP 38499 - Toke	(ii)	12.5%	-%	12.5%

(i) PEP 38729 Felix was relinquished on 7 November 2007.

(ii) PEP 38499 was granted by the Ministry of Economic Development on 16 May 2007 over part of the former Tui PEP 38460 exploration acreage.

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Share of joint ventures' assets and liabilities			
Short term securities and cash deposits	9,458	9,375	5,034
Trade receivables	2,724	732	1,386
Field operation consumables	32	72	32
Petroleum interests	156,662	64,618	110,374
Total current and non-current assets	168,876	74,797	116,826
Current liabilities	17,972	6,989	3,213
Net assets held in Joint Ventures	150,904	67,808	113,613
Share of joint ventures' revenue, expenses and results			
Revenues	236	616	834
Expenses	(10,878)	(2,640)	(621)
Profit/(loss) before income tax	(10,642)	(2,024)	213

12. Exploration and evaluation, development and production assets

(a) Exploration and evaluation assets

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Opening balance	2,570	1,339	1,339
Expenditure capitalised	8,278	4,413	4,968
Expenditure written off	(10,631)	(2,543)	(3,737)
Closing balance	217	3,209	2,570

(b) Development assets

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Opening balance	215,880	102,045	102,045
Expenditure capitalised	44,550	34,415	110,343
Abandonment provision	2,081	-	2,100
Net finance costs capitalised	245	665	1,392
Deconsolidation of subsidiary assets	(99,703)	-	-
Transferred to production assets	(52,349)	-	-
Closing balance	110,704	137,125	215,880

Includes borrowing costs capitalised of \$0.7 million at 31 December 2007 (31 December 2006: \$3.0 million).

(c) Production assets

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Opening balance	-	-	-
Transfer from development assets	52,349	-	-
Expenditure capitalised	3,051	-	-
Net finance costs capitalised	67	-	-
Amortisation for the period	(8,022)	-	-
Closing balance	47,445	-	-

Includes borrowing costs capitalised of \$3.0 million at 31 December 2007 (31 December 2006: \$nil).

13. Other financial assets

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Held-to-maturity investments	3,500	-	-
Available-for-sale investments	-	10,278	-
Refundable security deposits	43	4,910	5,537
Total other financial assets	3,543	15,188	5,537

14. Payables and provisions

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Trade payables	18,043	10,054	12,927
Employee provision	123	280	156
Accrued expenses	1,065	3,684	12,450
Interest payable	290	334	878
Royalties provision	6,528	-	-
Other payables	52	87	53
Total payables and provisions	26,101	14,439	26,464

15. Borrowings – current

	NOTES	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Secured				
Bank loans	16(a), 16(b)	42,819	-	37,000
Unsecured				
Short term loans	16(b)	-	-	2,236
Total current borrowings		42,819	-	39,236

16. Borrowings – non-current

	NOTES	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Secured				
Bank loans	(a), (b)	23,219	18,947	8,761
Unsecured				
Convertible notes	(b)	-	-	7,500
Total non-current borrowings		23,219	18,947	16,261

(a) Total secured borrowings

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Bank loans	66,038	18,947	45,761
Total secured borrowings (current and non-current)	66,038	18,947	45,761

(b) Borrowings of the Group comprise:

- Cash advance facility of US\$27.5 million (December 2006: US\$13.5 million) to fund the Tui development. The debt facility had been fully drawn by 30 June 2007. At 31 December 2007 US\$6 million of the facility had been repaid.
- Cash advance facility of \$137.5 million to fund the Kupe development. At 31 December 2007 \$23 million had been drawn from the facility.
- Short term revolving credit facility of \$15.0 million (December 2006: \$nil).
- Short term loans of \$2.3 million (December 2006: \$nil) from minority interest shareholders of PRCL. Short term loans were repaid in the half year to 31 December 2007.
- Convertible notes have been issued by PRCL that mature on 31 December 2008.

17. Contributed equity of the Group and Parent

(a) Capital on issue

	UNAUDITED HALF YEAR 31 DECEMBER 2007 SHARES 000s	UNAUDITED HALF YEAR 31 DECEMBER 2006 SHARES 000s	AUDITED FULL YEAR 30 JUNE 2007 SHARES 000s	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Ordinary shares						
Fully paid shares	262,181	236,211	261,886	157,543	131,893	157,225
Partly paid or term paid shares	2,789	1,885	2,609	28	19	26
Treasury shares	(5,865)	(5,865)	(5,865)	(2,794)	(2,794)	(2,794)
	259,105	232,231	258,630	154,777	129,118	154,457
Options on issue	138,838	113,067	138,988	-	-	-
Rights on issue	-	23,036	-	-	-	-

(b) Movements in ordinary share capital

	UNAUDITED HALF YEAR 31 DECEMBER 2007 SHARES 000s	UNAUDITED HALF YEAR 31 DECEMBER 2006 SHARES 000s	AUDITED FULL YEAR 30 JUNE 2007 SHARES 000s	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Opening	258,630	214,378	214,378	154,457	111,878	111,878
Movement						
Shares issued	295	17,500	43,174	318	17,229	42,563
Exercise of options	-	3	4	-	3	5
Partly paid or term paid shares issued	180	350	1,074	2	8	11
Closing	259,105	232,231	258,630	154,777	129,118	154,457

(c) Ordinary shares

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

(d) Partly paid shares

During the half year to 31 December 2007 the Company issued 180,000 partly paid shares (31 December 2006: 350,000), paid to NZ\$0.01 each, to participants in the ESOP. Partly paid shares are entitled to a vote in proportion to the amount paid up.

(e) Options

Each option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of NZ\$1.50 exercisable anytime up to 30 June 2008. During the half year ended 31 December 2007 the 150,000 unlisted options, issued as part of an incentive program, were exercised.

(f) Rights issue

On the 30 November 2006 a prospectus was registered by the company for a rights issue of shares and options. The rights issue closed on the 19 January 2007.

(g) Treasury shares

The reserve for the Company's own shares comprises the cost of these shares held within the Group.

18. Related party transactions

Related parties of the company include those entities identified in note 9, 10 and 11 as subsidiaries, joint ventures and associates.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured.

At 30 June 2007 PRCL had a short term advance from NZOG of \$16 million and had issued a convertible note to NZOG of \$3.5 million. During the half year ended 31 December 2007 PRCL repaid the short term advance in full. The convertible note matures on the 31 December 2008.

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

19. Employee share ownership plan

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

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

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

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

	UNAUDITED HALF YEAR 31 DECEMBER 2007 NUMBER 000S	UNAUDITED HALF YEAR 31 DECEMBER 2006 NUMBER 000S	AUDITED FULL YEAR 30 JUNE 2007 NUMBER 000S
NZOG shares allocated to employees			
Options to purchase shares/options	5,195	5,019	5,195
Saving shares/options	730	665	730
Partly paid or term paid shares	2,789	1,835	2,609
Unallocated	100	143	100
	8,814	7,662	8,634
Pan-Pacific Petroleum shares allocated to employees			
Options to purchase shares	4,047	4,754	4,420
	4,047	4,754	4,420

(b) Funding

NZOG Group holds redeemable preference shares in Nominees at a book value of \$2.3 million (31 December 2006: \$2.3 million) which can be redeemed upon the company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

(c) Control

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

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

	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Profit for the year	41,406	538	7,059
Minority interest	-	(47)	(298)
Depreciation and amortisation	8,255	103	207
Deferred Tax	15,868	(4,526)	(4,267)
Fair value gain/(loss) on options	2,048	-	(629)
Gain on dilution of investment in subsidiary	(11,201)	-	-
Gain on issue of shares in subsidiary	-	-	(3,924)
Gain on available for sale assets	-	-	(7,966)
Petroleum and coal exploration expenditure provided for or written off	10,631	2,551	3,698
Items classified as financing activities	982	-	366
Share of profits of associates	112	-	-
Net foreign exchange differences	(1,019)	432	791
Change in operating assets and liabilities			
Increase/(decrease) in trade creditors	7,433	(1,851)	(1,582)
(Increase)/decrease in trade debtors	(23,625)	2,208	2,402
Net cash inflow/(outflow) from operating activities	50,890	(592)	(4,143)

21. Commitments and contingent liabilities

(a) Capital expenditure commitments

As at 31 December 2007 the Group had certain capital expenditure commitments in relation to the participation in the Kupe development and Tui production.

(b) Exploration expenditure commitments

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

(c) General commitments

NZOG agreed to underwrite \$17.5 million of the \$60 million rights issue of shares announced by PRCL on 16 January 2008. By taking up its rights under the offer this prior obligation of providing up to \$25 million equity funding or other financial support to PRCL pursuant to a letter agreement dated 17 July 2007 will be satisfied in full.

(d) Contingent liabilities

As at 31 December 2007 the Company had no contingent liabilities (31 December 2006:\$Nil).

22. Earnings per share

EARNINGS PER SHARE	UNAUDITED HALF YEAR 31 DECEMBER 2007 CENTS	UNAUDITED HALF YEAR 31 DECEMBER 2006 CENTS	AUDITED FULL YEAR 30 JUNE 2007 CENTS
Basic earnings per share	15.7	0.2	2.9
Diluted earnings per share	10.3	0.2	1.8

RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE	UNAUDITED HALF YEAR 31 DECEMBER 2007 \$'000	UNAUDITED HALF YEAR 31 DECEMBER 2006 \$'000	AUDITED FULL YEAR 30 JUNE 2007 \$'000
Profit for the period	41,406	491	6,761
Profit attributed to minority interest	-	47	298
Profit attributable to the ordinary equity holders of the company	41,406	538	7,059

WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR	UNAUDITED HALF YEAR 31 DECEMBER 2007 NUMBER 000S	UNAUDITED HALF YEAR 31 DECEMBER 2006 NUMBER 000S	AUDITED FULL YEAR 30 JUNE 2007 NUMBER 000S
Weighted average number of ordinary shares used in calculating basic earnings per share	264,618	224,560	242,526
Adjustments for calculation of diluted earnings per share:			
Options	138,965	111,134	121,977
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	403,583	335,694	364,503

23. Explanation of transition to New Zealand equivalents to IFRS

(a) At the date of transition to NZ IFRS: 1 July 2006

	PREVIOUS NZ GAAP \$'000	EFFECT OF TRANSITION TO NZ IFRS \$'000	NZ IFRS \$'000
Current assets			
Cash and cash equivalents	41,713	-	41,713
Receivables and prepayments	21,514	1	21,515
Inventory	116	-	116
Deferred expenditure	1,339	-	1,339
Total current assets	64,682	1	64,683
Non-current assets			
Investments in associates	2,280	-	2,280
Petroleum and coal interests	90,266	(90,266)	-
Exploration and evaluation assets	-	1,339	1,339
Development assets	-	102,045	102,045
Deferred expenditure	1,815	-	1,815
Property, plant and equipment	521	(82)	439
Intangible assets	-	83	83
Deferred tax assets	-	7,786	7,786
Other financial assets	7,205	4,776	11,981
Total non-current assets	102,087	25,681	127,768
Total assets	166,769	25,682	192,451
Current liabilities			
Payables and provisions	10,009	49	10,058
Derivative financial instruments	-	322	322
Total current liabilities	10,009	371	10,380
Non-current liabilities			
Borrowings	16,982	-	16,982
Deferred tax liabilities	122	(122)	-
Restoration and rehabilitation provision	643	11,619	12,262
Total non-current liabilities	17,747	11,497	29,244
Total liabilities	27,756	11,868	39,624
Net Assets	139,013	13,814	152,827
Equity			
Share capital	111,878	-	111,878
Reserves	2,891	852	3,743
Retained earnings	(14,091)	12,962	(1,129)
Parent entity interest	100,678	13,814	114,492
Minority interest	38,335	-	38,335
Total equity	139,013	13,814	152,827

(b) At the end of the last half-year reporting period under previous NZ GAAP: 31 December 2006

	PREVIOUS NZ GAAP \$'000	EFFECT OF TRANSITION TO NZ IFRS \$'000	NZ IFRS \$'000
Current assets			
Cash and cash equivalents	35,206	-	35,206
Receivables and prepayments	2,920	1	2,921
Inventories	72	-	72
Current tax receivables	2	-	2
Deferred expenditure	1,827	-	1,827
Total current assets	40,027	1	40,028
Non-current assets			
Investments in associates	2,280	-	2,280
Petroleum and coal interest	132,367	(132,367)	-
Exploration and evaluation assets	-	3,209	3,209
Development assets	-	137,125	137,125
Deferred expenditure	2,988	(248)	2,740
Property, plant and equipment	507	(203)	304
Intangible assets	-	203	203
Deferred tax assets	-	11,553	11,553
Other financial assets	9,492	5,696	15,188
Total non-current assets	147,634	24,968	172,602
Total assets	187,661	24,969	212,630
Current liabilities			
Payables and provisions	14,399	40	14,439
Derivative financial instruments	-	277	277
Current tax liabilities	-	-	-
Total current liabilities	14,399	317	14,716
Non-current liabilities			
Borrowings	18,947	-	18,947
Deferred tax liabilities	229	(229)	-
Restoration and rehabilitation provision	740	11,180	11,920
Total non-current liabilities	19,916	10,951	30,867
Total liabilities	34,315	11,268	45,583
Net assets	153,346	13,701	167,047
Equity			
Share capital	129,118	-	129,118
Reserves	2,891	(2,659)	232
Retained earnings	(16,951)	16,360	(591)
Parent entity interest	115,058	13,701	128,759
Minority interest	38,288	-	38,288
Total equity	153,346	13,701	167,047

(c) At the end of the last reporting period under previous NZ GAAP: 30 June 2007

	PREVIOUS NZ GAAP \$'000	EFFECT OF TRANSITION TO NZ IFRS \$'000	NZ IFRS \$'000
Current assets			
Cash and cash equivalents	35,383	-	35,383
Receivables and prepayments	2,678	(9)	2,669
Inventories	32	-	32
Derivative financial instruments	-	372	372
Deferred expenditure	3,999	-	3,999
Total current assets	42,092	363	42,455
Non-current assets			
Investments in associates	2,280	-	2,280
Petroleum and coal interest	212,658	(212,658)	-
Exploration and evaluation assets.	-	2,570	2,570
Development assets	-	215,880	215,880
Deferred expenditure	3,547	(328)	3,219
Property, plant and equipment	486	(185)	301
Intangible assets	-	188	188
Deferred tax assets	-	12,965	12,965
Other financial assets	5,536	1	5,537
Total non-current assets	224,507	18,433	242,940
Total assets	266,599	18,796	285,395
Current liabilities			
Payables and provisions	26,428	36	26,464
Borrowings	39,236	-	39,236
Current tax liabilities	521	(62)	459
Total current liabilities	66,185	(26)	66,159
Non-current liabilities			
Borrowings	16,261	-	16,261
Restoration and rehabilitation provision	844	13,086	13,930
Total non-current liabilities	17,105	13,086	30,191
Total liabilities	83,290	13,060	96,350
Net assets	183,309	5,736	189,045
Equity			
Share capital	154,457	-	154,457
Reserves	2,891	(8,345)	(5,454)
Retained earnings	(7,464)	13,394	5,930
Parent entity interest	149,884	5,049	154,933
Minority interest	33,425	687	34,112
Total equity	183,309	5,736	189,045

(d) Reconciliation of profit for the half-year ended 31 December 2006

	PREVIOUS NZ GAAP \$'000	EFFECT OF TRANSITION TO NZ IFRS \$'000	NZ IFRS \$'000
Revenue	92	-	92
Expenses, excluding finance costs	(5,298)	(3)	(5,301)
Net finance costs	2,406	(1,232)	1,174
Profit/(loss) before income tax	(2,800)	(1,235)	(4,035)
Income tax (expense)/benefit	(107)	4,633	4,526
Profit/(loss) for the period	(2,907)	3,398	491
Profit attributable to minority interest	47	-	47
Profit/(loss) attributable to equity holders of the parent	(2,860)	3,398	538

(e) Reconciliation of profit for the year ended 30 June 2007

	PREVIOUS NZ GAAP \$'000	EFFECT OF TRANSITION TO NZ IFRS \$'000	NZ IFRS \$'000
Revenue	4,922	(688)	4,234
Expenses, excluding finance costs	(10,710)	18	(10,692)
Net finance costs	12,516	(3,044)	9,472
Profit/(loss) before income tax	6,728	(3,714)	3,014
Income tax (expense)/benefit	(399)	4,146	3,747
Profit/(loss) for the period	6,329	432	6,761
Profit attributable to minority interest	298	-	298
Profit/(loss) attributable to equity holders of the parent	6,627	432	7,059

(f) Reconciliation of cash flow statement for the year ended 30 June 2007

The adoption of NZ IFRS has not resulted in any material adjustments to the cash flow statement.

(g) Notes to the reconciliations

(i) Available for sale investments

Under NZ IFRS the investment in Resource Investments has been classified as an available-for-sale financial asset, which is remeasured at fair value. Changes in fair value are recognised as a movement in the Available for Sale Reserve. Subsequent disposal of the Resource Investment will result in the change in fair value, previously recognised in equity, being recycled through to the profit and loss.

(ii) Change in Functional Currency

On transition to NZ IFRS 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"). From the entities within the Group the functional currency used is New Zealand dollars, with exception to the following:

- Stewart Petroleum Company Ltd – United States dollars
- ANZ Resources Pty Ltd – Australian dollars

The results and financial position of foreign operations that have a functional currency different from the presentation currency have been translated into the presentation currency as follows:

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

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity.

(iii) Reclassification of exploration, development and production assets

Under NZ IFRS petroleum and coal interest as classified according to the phase of the research and development project.

- Expenditure on research activities undertaken with the prospect of obtaining new scientific or technical knowledge and understanding is expensed to the statement of financial performance.
- Exploration and evaluation expenditure are capitalised as incurred in relation to separate areas of interest such as costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.
- Upon technical feasibility and commercial viability of an area of interest, exploration and evaluation assets for the area of interest is transferred to Development assets.
- No amortisation is provided, in respect of development assets, until they are reclassified as production assets.

(iv) Restatement of asset revaluation reserve

With the transition to NZ IFRS the asset revaluation reserve is no longer recognised. The impact of this change in treatment at 1 July 2006 is to reverse it out of equity and the related investment in the statement of financial position, therefore restating the development asset to historical cost, and reserve out any impairment in retained earnings.

(v) Provision for abandonment

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

(vi) Derivative financial instruments

Under NZ IFRS derivative financial instruments, that do not qualify for hedge accounting, are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the statement of financial performance.

(vii) Deferred tax liability

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

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

24. Events occurring after the balance sheet date

In February 2008 NZOG made a commitment to expenditure of approximately \$8 million to drill the Momoho exploration well. Momoho is part of the PML 38146 Kupe permit.

Auditors' review report



To the shareholders of New Zealand Oil & Gas Limited ('the Company')

We have completed a review on the condensed interim financial statements on pages 11 to 35 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The condensed interim financial statements provide information about the past financial performance of the Company and its financial position as at 31 December 2007.

Directors' responsibilities

The Directors of the Company are responsible for the preparation of condensed interim financial statements which give a true and fair view of the financial position of the Company as at 31 December 2007 and the results of its operations for the six month period ended on that date.

Reviewers' responsibilities

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

Basis of opinion

A review is limited primarily to enquiries of Company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements contained on pages 11 to 35 do not give a true and fair view of the financial position of company as at 31 December 2007 and the results of its operations for the half year period ended on that date.

Our review was completed on 27 February 2008 and our opinion is expressed as at that date.

A handwritten signature in blue ink that reads 'KPMG'.

Wellington

Corporate Directory

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

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ACA

R F Meyer
Deputy Chairman
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DistFIPENZ

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BCA, LLB

A T N Knight
BMs, CA(NZ)

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D J Salisbury
Managing Director
BCA, LLB

D R Scoffham
MA, MSc

Management

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CEO & Managing
Director
BCA, LLB

Brent Alderton
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