CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

Consolidated Statement of Cash Flows
For the year ended 30 June 2019

$000	Notes	2019	2018
Cash flows from operating activities			
Receipts from customers		**46,570**	36,519
Production and marketing expenditure		**(10,968)**	(12,551)
Supplier and employee payments (inclusive of GST)		**(11,744)**	(11,501)
Interest received		**2,297**	1,713
Income taxes paid		**(4,131)**	(3,214)
Royalties paid		**(2,506)**	(603)
Other		**1,787**	200
Net cash inflow from operating activities		**21,305**	10,563
Cash flows from investing activities			
Purchase of oil and gas interest net of cash acquired		**-**	(29,654)
Exploration and evaluation expenditure		**(12,115)**	(5,420)
Oil and gas asset expenditure		**(1,740)**	(3,422)
Purchase of property, plant and equipment		**(87)**	(306)
Net cash outflow from investing activities		**(13,942)**	(38,802)
Cash flows from financing activities			
Issue of shares		**6**	3,291
Forfeited shares		**(17)**	(4)
Dividends paid		**-**	(6,805)
Net cash outflow from financing activities		**(11)**	(3,518)
Net increase/(decrease) in cash, cash equivalents and funds held in escrow		**7,352**	(31,757)
Cash and cash equivalents at the beginning of the year		**98,010**	125,103
Exchange rate effects on cash, cash equivalents and funds held in escrow		**224**	4,664
Cash, cash equivalents and funds held in escrow at end of the year	11	**105,586**	98,010

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

$000	2019	2018
(Loss)/Profit for the year	**(2,889)**	4,830
Depreciation and amortisation	**8,818**	8,724
Deferred tax	**559**	(2,767)
Exploration expenditure included in investing activities	**8,224**	4,650
Evaluation and exploration asset impairment	**7,202**	-
Net foreign exchange differences	**(1,217)**	(4,062)
Unwind of discount on provision	**221**	203
Stock movement	**(529)**	11
Carbon emission inventory	**215**	-
Other	**364**	(302)
Change in operating assets and liabilities		
Movement in trade debtors	**3,777**	(4,705)
Movement in trade creditors	**(2,462)**	1,616
Movement in tax payable	**(977)**	2,365
Net cash inflow from operating activities	**21,305**	10,563

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

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2019

$000	Notes	2019	2018
Revenue	5	**43,323**	35,811
Operating costs	6	**(9,305)**	(12,625)
Exploration and evaluation expenditure	15	**(8,224)**	(4,650)
Other income	5	**2,450**	542
Other expenses	7	**(12,389)**	(11,376)
Results from operating activities excluding amortisation, impairment and net finance costs		**15,855**	7,702
Amortisation of production assets	16	**(8,457)**	(8,287)
Exploration and evaluation asset impairment	15	**(7,202)**	-
Net finance income	8	**3,162**	5,763
Profit before income tax and royalties		**3,358**	5,178
Income tax (expense)/credit	9	**(3,674)**	1,197
Royalties expense	10	**(2,573)**	(1,545)
(Loss)/profit for the year		**(2,889)**	4,830
(Loss)/profit for the year attributable to:			
(Loss)/profit attributable to shareholders		**(7,480)**	762
Profit attributable to non-controlling interest		**4,591**	4,068
(Loss)/profit for the year		**(2,889)**	4,830
Other comprehensive income:			
Items that may be classified to profit or loss			
Foreign currency translation reserve (FCTR) differences		**(5,262)**	1,179
Total other comprehensive (loss)/income for the year		**(8,151)**	6,009
Total comprehensive (loss)/income for the year is attributable to:			
Equity holders of the Group		**(12,517)**	2,125
Non-controlling interest (NCI)		**4,366**	3,884
Total comprehensive (loss)/income for the year		**(8,151)**	6,009
(Loss)/income per share			
Basic and diluted (cents per share)	22	**(4.5)**	**0.5**

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

Consolidated Statement of Financial Position
As at 30 June 2019

$000	Notes	**2019**	2018
Assets			
Current assets			
Cash and cash equivalents	11	**93,540**	98,010
Funds held in escrow	11	**12,046**	-
Receivables and prepayments	12	**7,996**	11,772
Inventories		**2,595**	2,253
Total current assets		**116,177**	112,035
Non-current assets			
Exploration and evaluation assets	15	**3,646**	7,243
Oil and gas assets	16	**58,507**	64,848
Property, plant and equipment		**374**	217
Other intangible assets		**47**	487
Other financial assets	17	**9**	16
Total non-current assets		**62,583**	72,811
Total assets		**178,760**	184,846
Liabilities			
Current liabilities			
Payables	18	**5,975**	8,546
Current tax liabilities		**4,314**	5,291
Total current liabilities		**10,289**	13,837
Non-current liabilities			
Rehabilitation provision	19	**20,829**	18,642
Deferred tax liability	9	**1,309**	797
Total non-current liabilities		**22,138**	19,439
Total liabilities		**32,427**	33,276
Net assets		**146,333**	151,570
Equity			
Share capital	20	**211,908**	211,917
Reserves	21	**2,460**	7,561
Retained earnings		**(79,071)**	(74,578)
Attributable to shareholders of the Group		**135,297**	144,900
Non-controlling interest in subsidiaries		**11,036**	6,670
Total equity		**146,333**	151,570
Net asset backing per share (cents per share)		**87**	90
Net tangible asset backing per share (cents per share)		**85**	86

Authorised on behalf of the New Zealand Oil & Gas Limited Board of Directors on 26 August 2019:

Samuel Kellner
Chairman

Rosalind Archer
Director

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2019

$000	Issued capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 July 2017	**208,630**	**6,198**	**(68,558)**	**146,270**	**2,786**	**149,056**
Profit for the year	-	-	762	762	4,068	4,830
Foreign currency translation differences	-	1,338	-	1,338	(184)	1,154
Shares issued	3,313	-	-	3,313	-	3,313
Party paid shares issued	(26)	-	-	(26)	-	(26)
Share based compensation expense	-	47	-	47	-	47
Exercised and expired ESOP awards	-	(47)	47	-	-	-
Dividends declared	-	-	(6,804)	(6,804)	-	(6,804)
FCTR on disposals	-	25	(25)	-	-	-
Balance as at 30 June 2018	**211,917**	**7,561**	**(74,578)**	**144,900**	**6,670**	**151,570**
(Loss)/profit for the year	-	-	(7,480)	(7,480)	4,591	(2,889)
Foreign currency translation differences	-	(2,132)	-	(2,132)	(225)	(2,357)
Shares issued	8	-	-	8	-	8
Party paid shares issued	(17)	-	-	(17)	-	(17)
Share based compensation expense	-	18	-	18	-	18
Exercised and expired ESOP awards	-	(82)	82	-	-	-
FCTR on disposals	-	(2,905)	2,905	-	-	-
Balance as at 30 June 2019	**211,908**	**2,460**	**(79,071)**	**135,297**	**11,036**	**146,333**

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

1 Basis of accounting

Reporting entity

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

The ultimate parent company is O.G. Oil & Gas (Singapore) Pte. Ltd. (OGOG), a company incorporated in Singapore and forms part of the Ofer Global Group.

Basis of preparation

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

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

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

Basis of consolidation

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

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

2 Critical accounting estimates and judgements

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

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

* recoverability of exploration and evaluation assets and oil and gas assets. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at each reporting date and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 15, 16 and 23(a)(ii)).

* provision for rehabilitation obligations includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 19).

* recoverability of deferred tax asset. Assessment of the ability of entities in the Group to generate future taxable income (refer to note 9).

3 Adoption status of relevant new financial reporting standards and interpretations

* **NZ IFRS 9 Financial Instruments**

This standard includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39 Financial Instruments: Recognition and Measurement, which NZ IFRS 9 replaces. The adoption of this accounting standard has had no impact on the financial statements.

* **NZ IFRS 15 Revenue from Contracts with Customers**

This standard establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. The adoption of this accounting standard has had no impact on the financial statements.

The accounting policies for revenue recognition are as follows:

Production revenue

The consolidated entity generates production revenue from its interest in producing crude oil and gas fields. Revenue from oil production is recognised at a point in time when crude oil is delivered to the buyer. Revenue from gas production is recognised during the month when gas is delivered to the buyer.

Adoption status of relevant new financial reporting standards and interpretations

The following new standard, amendment to standards and interpretations is issued but not yet effective and has not been applied in preparation of these financial statements.

* **NZ IFRS 16 Leases**

This standard removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The likely impact of this standard has not yet been assessed.

4 Segment information

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

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

Kupe oil and gas field (Kupe): development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand. The Group purchased a 4% interest from Mitsui E&P Australia Pty Limited with an acquisition date of 8 December 2017.

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

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

4 Segment information (continued)

2019 $000	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - NZ	**11,933**	**-**	**-**	**-**	**11,933**
Sales to external customers - other countries	**3,928**	**-**	**-**	**27,462**	**31,390**
Total sales revenue	**15,861**	**-**	**-**	**27,462**	**43,323**
Other income	**58**	**-**	**239**	**2,153**	**2,450**
Total revenue and other income	**15,919**	**-**	**239**	**29,615**	**45,773**
Segment result	**10,267**	**(12,960)**	**(10,349)**	**13,238**	**196**
Other net finance income					**3,162**
Profit before income tax and royalties					**3,358**
Income tax and royalties expense					**(6,247)**
Loss for the year					**(2,889)**
Segment assets	**32,712**	**90**	**-**	**29,351**	**62,153**
Unallocated assets					**116,607**
Total assets					**178,760**
Included in segment results:					
Depreciation and amortisation expense	**3,798**	**-**	**351**	**4,669**	**8,818**

2018 $000	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - NZ	6,052	-	-	-	6,052
Sales to external customers - other countries	3,114	-	-	26,645	29,759
Total sales revenue	9,166	-	-	26,645	35,811
Other income	(22)	-	282	282	542
Total revenue and other income	9,144	-	282	26,927	36,353
Segment result	5,589	(1,649)	(9,755)	5,229	(586)
Other net finance income					5,764
Profit before income tax and royalties					5,178
Income tax and royalties expense					(348)
Profit for the year					4,830
Segment assets	35,432	7,243	-	29,416	72,091
Unallocated assets					112,755
Total assets					184,846
Included in segment results:					
Depreciation and amortisation expense	2,144	-	422	6,158	8,724

5 Revenue and other income

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

$000	2019	2018
Revenue		
Petroleum sales	**43,323**	35,811
Total revenue	**43,323**	35,811
Other income		
Insurance proceeds	**1,125**	-
Reimbursement of Ironbark back costs	**947**	-
Other income	**378**	542
Total other income	**2,450**	542
Total income	**45,773**	36,353

6 Operating Costs

$000	2019	2018
Production and sales marketing costs	**(8,965)**	(11,949)
Carbon emission expenditure	**(413)**	(391)
Insurance expenditure	**(456)**	(274)
Movement in inventory	**529**	(11)
Total operating costs	**(9,305)**	(12,625)

7 Other expenses

$000	2019	2018
Classification of other expenses by nature		
Audit fees paid to the Group auditor - KPMG	**110**	105
Audit fees paid to other auditors - BDO	**124**	113
Directors' fees	**294**	476
Legal fees	**878**	821
Consultants' fees	**1,515**	999
Employee expenses (i)	**6,229**	5,142
Depreciation	**120**	71
Amortisation of intangible assets	**241**	366
Share based payment expense	**17**	47
IT and software expenses	**557**	628
Pre-permit expenditure	**-**	127
Registry and stock exchange fees	**143**	261
Other	**2,161**	2,220
Total other expenses	**12,389**	11,376

(i) Employee expenses are net of $0.1 million (2018: $0.2 million) recharged to exploration and evaluation expense and recharged to operated joint ventures.

7 Other expenses (continued)

$000	2019	2018
Fees paid to the Group auditor		
Audit and review of financial statements	**110**	105
Tax compliance services	**98**	20
Tax advisory services	**86**	256
Total fees paid to Group auditor	**294**	381
Fees paid to the other auditors (for the year) - BDO		
Audit and review of subsidiary financial statements	**124**	113
Tax compliance services	**10**	22
Total fees paid to other auditors	**134**	135

8 Net finance income and costs

$000	2019	2018
Bank fees	**(9)**	(4)
Unwinding of discount on provisions	**(221)**	(203)
Total finance costs	**(230)**	(207)
Interest income	**2,175**	1,908
Exchange gains on foreign currency balances	**1,217**	4,062
Total finance income	**3,392**	5,970
Net finance income	**3,162**	5,763

9 Taxation

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

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

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

9 Taxation (continued)

$000	2019	2018
Income tax expense		
Current tax	**3,115**	1,570
Deferred tax	**559**	(2,767)
(a) Total income tax expense/(credit)	**3,674**	(1,197)
Income tax expense calculation		
Profit before income tax expense and royalties	**3,358**	5,178
Less: royalties expense	**(2,573)**	(1,545)
Profit before income tax expense	**785**	3,633
Tax at the New Zealand tax rate of 28%	**220**	1,017
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	**(445)**	628
Non-deductible write off	**2,475**	247
Foreign exchange adjustments	**(198)**	(182)
Unrealised timing differences	**433**	(2,036)
Unrecognised tax losses	**1,645**	1,591
Other expenses	**298**	329
	4,429	1,593
Adjustment recognised for current tax in prior periods (i)	**(755)**	(2,790)
(b) Income tax expense/(credit)	**3,674**	(1,197)

(i) During the prior year Cue had an Indonesian tax matter relating to a notice of amended assessment which was being disputed by Cue Kalimantan Pte Ltd on behalf of SPC E&P Ltd (SPC). Cue is indemnified by SPC for any losses arising from this dispute and has recognised a tax liability as well as a receivable in the Consolidated Statement of Financial Position.

At 30 June 2019 no imputation credits were held for subsequent reporting periods (2018: nil).

(d) Deferred tax

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

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

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences. As at 30 June 2019 the Group have accumulated losses in New Zealand of $41.7 million (30 June 2018: $35.6 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to the Group satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

9 Taxation (continued)

$000	2019	2018
The balance comprises temporary differences attributable to:		
Deferred Tax Assets		
Non-deductible provisions	**5,645**	5,329
	5,645	5,329
Deferred Tax Liabilities		
Oil & gas assets	**(6,954)**	(6,126)
	(6,954)	(6,126)
Net deferred tax liabilities	**(1,309)**	(797)
Movements:		
Net deferred tax liability at 1 July	**(797)**	(3,360)
Recognised in profit or loss	**(559)**	2,767
Recognised in other comprehensive income	**47**	(204)
Closing balance at end of year	**(1,309)**	(797)

10 Royalties expense

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

11 Cash and cash equivalents and funds held in escrow

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

$000	2019	2018
Cash at bank and in hand	**12,006**	19,978
Deposits at call	**4,590**	1,914
Short term deposits	**76,602**	75,190
Share of oil and gas interests' cash	**342**	928
Funds held in escrow - WA-359-P Drilling Programme Account	**12,046**	-
Total cash and cash equivalents at end of year	**105,586**	98,010

Cash and cash equivalents denominated by currency **$000**	**2019** **Base Currency**	**2019** **NZD Equivalent**	2018 Base Currency	2018 NZD Equivalent
NZ dollar	**32,439**	**32,439**	33,489	33,489
US dollar	**45,635**	**68,032**	40,868	60,412
AU dollar	**4,774**	**4,990**	3,755	4,100
ID rupiah	**1,187,789**	**125**	84,822	9
Total cash and cash equivalents at end of year		**105,586**		98,010

Deposits at call and short-term deposits
The deposits at call and short term deposits are currently bearing interest rates between **1.60% and 2.70%** (2018: 1.00% and 2.85%).

The WA-359-P Drilling Programme Account represents cash held under the Ironbark funding arrangement of the WA-359-P joint agreement and is not available as free cash for the purposes of the Group's operations until BP Developments Australia Pty Limited, as the operator, draws down on the balance for the purposes of the drilling work programme agreed by all parties.

12 Receivables and prepayments

$000	2019	2018
Trade receivables	**6,492**	6,657
Provision for doubtful debts	**-**	272
Share of oil and gas interests' receivables	**1,328**	4,590
Prepayments	**124**	65
Other	**52**	188
Total receivables and prepayments at end of year	**7,996**	11,772

Receivables and prepayments denominated by currency $000	**2019 Base Currency**	**2019 NZD Equivalent**	2018 Base Currency	2018 NZD Equivalent
NZ dollar	**2,322**	**2,322**	3,025	3,025
US dollar	**3,776**	**5,617**	5,701	8,695
AU dollar	**35**	**37**	34	37
ID rupiah	**181,098**	**20**	148,642	15
Total receivables and prepayments at end of year		**7,996**		11,772

13 Investments in subsidiaries

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

At 30 June 2019 the Group holds a 50.04 per cent interest in Cue Energy Resources Limited (30 June 2018: 50.04 per cent). Cue entities below reflect the Group's 50.04 per cent interest in Cue subsidiaries.

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

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

13 Investments in subsidiaries (continued)

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

Name of entity	Country of incorporation	Equity Holding 2019	Equity Holding 2018	Functional Currency
New Zealand Oil & Gas				
Australia and New Zealand Petroleum Limited	New Zealand	**100%**	100%	NZD
NZOG Onshore Limited (i)	New Zealand	**100%**	100%	NZD
NZOG Canterbury Limited (ii)	New Zealand	**100%**	100%	NZD
NZOG 2013 O Limited	New Zealand	**100%**	100%	NZD
NZOG Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG Devon Limited	New Zealand	**100%**	100%	NZD
NZOG 2013T Limited	New Zealand	**100%**	100%	NZD
NZOG Energy Limited	New Zealand	**100%**	100%	NZD
NZOG Palmerah Baru Pty Limited (iii)	Australia	**100%**	100%	USD
NZOG Offshore Limited	New Zealand	**100%**	100%	NZD
NZOG Pacific Holdings Pty Limited	Australia	**100%**	100%	USD
NZOG Pacific Limited	New Zealand	**100%**	100%	NZD
NZOG Services Limited	New Zealand	**100%**	100%	NZD
NZOG Taranaki Limited	New Zealand	**100%**	100%	NZD
Petroleum Resources Limited	New Zealand	**100%**	100%	NZD
NZOG MNK Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG Asia Pty Limited (iv)	Australia	**100%**	100%	USD
Pacific Oil & Gas (North Sumatera) Limited (iv)	Bermuda	**90%**	90%	USD
Cue Energy Resources				
Cue Energy Resources Limited	Australia	**50.04%**	50.04%	AUD
Cue Mahakam Hilir Pty Limited	Australia	**50.04%**	50.04%	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	**50.04%**	50.04%	AUD
Cue Sampang Pty Limited	Australia	**50.04%**	50.04%	AUD
Cue Taranaki Pty Limited	Australia	**50.04%**	50.04%	AUD
Cue Kalimantan Pte Ltd	Singapore	**50.04%**	50.04%	USD
Cue Mahato Pty Ltd	Australia	**50.04%**	50.04%	AUD
Cue Exploration Pty Limited	Australia	**50.04%**	50.04%	AUD

(i) Company name changed from "NZOG 54867 Limited" during the year.
(ii) Company name changed from "NZOG 54857 Limited" during the year.
(iii) This company was sold during the 2018 financial year subject to regulatory approval.
(iv) These companies are consolidated to 18 March 2019 after which control was relinquished (see note 15).

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

14 Oil and gas interests

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

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

Name	Type	Country	Ownership 2019	2018
New Zealand Oil & Gas				
PML 38146 – Kupe	Mining Licence	New Zealand	4.0%	4.0%
PEP 52717 – Clipper	Exploration Permit	New Zealand	50.0%	50.0%
PEP 55794 - Toroa	Exploration Permit	New Zealand	100.0%	30.0%
Palmerah Baru PSC (i)	Production Sharing Contract	Indonesia	36.0%	36.0%
Kisaran PSC (ii)	Production Sharing Contract	Indonesia	22.5%	22.5%
Bohorok PSC (iii)	Production Sharing Contract	Indonesia	25.0%	25.0%
MNK Bohorok	Joint Study Agreement	Indonesia	0.0%	20.3%
WA-359-P	Exploration Permit	Australia	15.0%	0.0%
Cue Energy Resources *				
WA-359-P	Exploration Permit	Australia	21.5%	100.0%
WA-389-P	Exploration Permit	Australia	100.0%	40.0%
WA-409-P	Exploration Permit	Australia	20.0%	20.0%
Mahakam Hilir PSC	Production Sharing Contract	Indonesia	100.0%	100.0%
PMP 38160 – Maari	Mining Permit	New Zealand	5.0%	5.0%
Sampang PSC	Production Sharing Contract	Indonesia	15.0%	15.0%
Mahato PSC	Production Sharing Contract	Indonesia	12.5%	12.5%

(i) On 12 December 2018 an agreement was signed to sell the entity which held the Palmerah Baru PSC to Bow Energy Limited replacing a prior agreement of 23 April 2018. The sale remains subject to regulatory approval.
(ii) On 18 March 2019 an option agreement was signed which in effect relinquished control of the interests in the Kisaran PSC to Pacific Oil & Gas (Kisaran) Limited (refer to note 15).
(iii) On 12 December 2018 an option agreement was signed to sell the Group's interest in the Bohorok PSC to Bukit Energy Bohorok Pte Ltd (an entity now owned by Bow Energy) (refer to note 15).

* represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 50.04% (2018: 50.04%) of the Cue interest.

15 Exploration and evaluation

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

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

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

Exploration and evaluation expenditure includes the drilling costs associated with the Kohatukai well. On 15 November 2018 the Group announced that the well was to be plugged and abandoned as the joint venture's view was that no economically viable gas reserves had been encountered in the well. The Group's policy is to expense costs at this point.

Paus Biru-1 (Sampang PSC) drilling costs have been capitalised as an exploration and evaluation asset pending the determination of the success of the well. If the well does not result in a successful commercial discovery, the previously capitalised costs will be immediately expensed.

In December 2018 a sales and purchase agreement was signed to dispose of the Group's interest in the Bohorok PSC, to Bukit Energy Bohorok Pte Limited an entity owned by Bow Energy. This agreement remains subject to regulatory approval. The terms will see the Group receive a cash payment of US$2 million if production commences following the first well, with a further US$1 million from production from a second well. The Group will not contribute any further to the costs of the PSC.

At the half year the Kisaran exploration and evaluation asset (US$4.9 million) was fully impaired following an assessment that the carrying value was unlikely to be recovered by future development or sale. NZ$7.2 million has been expensed in the profit and loss. On 18 March 2019 the Group entered into an option agreement with Pacific Oil & Gas Ltd (PO&G) providing PO&G with an option to acquire the holding company of the Indonesian Kisaran PSC interests. Sales prices ranging from US$1.0 million to US$2.5 million were agreed and depend on the timing of the option being called by PO&G. The agreement also includes a put option for the Group to elect to sell the holding company of the Kisaran PSC for US$1. The terms of the agreement include an immediate transfer of liabilities and assets to PO&G which has been determined to constitute a loss of control of the asset. As such the Kisaran legal entities are no longer consolidated in the Group financial statements. The impact on the financial statements is not material other than the derecognition of the Foreign currency translation reserve of $2.9 million. The Group is not exposed to any further costs relating to the Kisaran PSC.

On 23 May 2019, Cue announced that approval was received for the title transfers of exploration permit WA-359-P, which contains the Ironbark gas prospect, to new joint venture partners BP Developments Australia Pty Ltd (BP), Beach Energy Limited (Beach) and New Zealand Oil & Gas (NZO). Completion of the agreements occurred in June 2019 and included A$1.54 million of past cost reimbursement to Cue from Beach and NZO. The A$0.6 million payment from NZO is considered an inter company transaction and is eliminated on consolidation. Under the agreements, NZO has a participating interest of 15% and Cue has a participating interest of 21.5%. Cue will be carried by NZO up to 2.85% of US$90 million well cost spend. BP is operator and continues with planning and execution of the Ironbark-1 exploration well, which will be drilled late 2020.

$000	**2019**	2018
Opening balance	**7,243**	6,692
Impairment of exploration asset	**(7,202)**	-
Capitalised exploration costs	**3,646**	-
Revaluation of USD exploration and evaluation assets	**(41)**	551
Closing balance at end of year	**3,646**	7,243

16 Oil and gas assets

Development

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

Production assets

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

Subsequent costs

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

Impairment

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

16 Oil and gas assets (continued)

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

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

$000	**2019**	2018
Opening balance	**64,848**	31,957
Acquisition	**-**	29,379
Expenditure capitalised	**1,702**	3,272
Amortisation for the year	**(8,475)**	(8,308)
Revaluation of USD production assets	**(1,204)**	1,254
Abandonment provision	**1,636**	7,294
Closing balance at end of year	**58,507**	64,848

At 30 June 2019 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in no impairment (30 June 2018: nil).

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

17 Other financial assets

$000	**2019**	2018
Security deposits	**9**	16
Total other financial assets at end of year	**9**	16

18 Payables

$000	**2019**	2018
Trade payables	**1,573**	2,697
Kisaran borrowings	**-**	1,274
Royalties payable	**909**	-
Share of oil and gas interests' payable	**2,568**	3,822
Other payables	**925**	753
Total payables at end of year	**5,975**	8,546

Payables denominated by currency	**2019 Base Currency**	**2019 NZD Equivalent**	2018 Base Currency	2018 NZD Equivalent
NZ dollar	**4,627**	**4,627**	4,471	4,471
US dollar	**695**	**977**	2,421	3,578
AU dollar	**346**	**361**	400	437
GB pound	**-**	**-**	8	15
ID rupiah	**100,035**	**10**	439,231	45
Total payables at end of year	**-**	**5,975**	-	8,546

19 Rehabilitation Provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 2.16% from the United States. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

$000	**2019**	2018
Carrying amount at start of year	**18,642**	10,304
Addition/(Reduction) in provision recognised	**1,643**	7,095
Foreign currency revaluation of provisions	**130**	712
Unwinding of discount	**414**	531
Carrying amount at end of year	**20,829**	18,642

20 Share capital

	Number of shares 000s	**$000**
Balance at 30 June 2017	**167,849**	**208,630**
Shares issued during the year	**4,992**	**3,313**
Forfeited partly paid ESOP shares converted and sold	**(2,081)**	**-**
Partly paid ESOP shares exercised	**(2,911)**	**(26)**
Balance at 30 June 2018	**167,849**	**211,917**
Shares issued during the year	**10,000**	**8**
Partly paid ESOP shares exercised	**(10,000)**	**-**
Partly paid ESOP shares expired	**-**	**(17)**
Balance at 30 June 2019	**167,849**	**211,908**
Comprised of:		
Fully paid shares	**164,431**	**211,925**
Partly paid shares	**3,418**	**(17)**
Balance at 30 June 2019	**167,849**	**211,908**

During the year 10,000 partly paid shares were exercised and converted to ordinary shares (2018: 2.9 million partly paid shares converted to fully paid shares and sold for the benefit of ESOP participants).

Partly paid shares are entitled to a vote in proportion to the amount paid up. Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 25.

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

21 Reserves

(a) Reserves

$000	2019	2018
Share based payments reserve	**83**	147
Foreign currency translation reserve	**2,377**	7,414
Total reserves at end of year	**2,460**	7,561

Movements:

$000	2019	2018
Share-based payments reserve		
Opening balance at 1 July	**147**	147
Share based payment expense for the year	**18**	47
Exercised and expired ESOP awards	**(82)**	(47)
Closing balance at end of year	**83**	147

$000	2019	2018
Foreign currency translation reserve		
Opening balance at 1 July	**7,414**	6,051
Impact on foreign currency translation reserve of disposals	**(2,905)**	25
Other foreign currency translation differences for the year	**(2,132)**	1,338
Closing balance at end of year	**2,377**	7,414

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

22 Income per share

	2019	2018
Profit attributable to shareholders ($000)	**(7,479)**	762
Weighted average number of ordinary shares (000)	**167,849**	167,849
Basic and diluted earnings per share (cents)	**(4.5)**	0.5

23 Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

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

23 Financial risk management (continued)

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence. The Group had no call option contracts at 30 June 2019 (2018: nil).

(iii) Concentrations of interest rate exposure

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

(b) Credit risk

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

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

(c) Liquidity risk

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

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

30 June 2019 $000	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**	**Contractual cash flows**
Payables	**5,975**	**-**	**-**	**-**	**-**	**5,975**
Total non-derivative liabilities	**5,975**	**-**	**-**	**-**	**-**	**5,975**

30 June 2018 $000	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
Payables	8,546	-	-	-	-	8,546
Total non-derivative liabilities	8,546	-	-	-	-	8,546

At 30 June 2019 the Group had no derivatives to settle (2018: nil).

(d) Capital management

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

23 Financial risk management (continued)

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity prices and foreign currency exchange rates. The sensitivity table below shows the impact of exchange rate changes on current assets and liabilities and the impact of interest rate changes on current cash balances.

	Risk area	Sensitivity	**2019**	2018
Impact on Group profit before tax	Exchange rate	+5%	**(2.1)**	(2.2)
		-5%	**2.4**	2.2
Impact on foreign currency translation reserves in equity	Exchange rate	+5%	**(1.5)**	(1.2)
		-5%	**1.7**	1.2
Impact on interest income	Interest rate	+1%	**0.5**	0.5
		-1%	**(0.5)**	(0.5)

(f) Recognised assets and liabilities

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

(g) Financial instruments by category

$000	**2019 Carrying value**	2018 Carrying value
Assets		
Cash and cash equivalents	**93,540**	98,010
Funds held in escrow	**12,046**	-
Trade and other receivables	**7,871**	11,435
	113,457	109,445
Liabilities		
Payables	5,975	8,546
	5,975	8,546

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

24 Related party transactions

Related parties of the Group include those entities identified in notes 13 and 14 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms.

During the year certain activities were undertaken between the Group and OGOG. On 21 June 2019, an inter-group services agreement was entered into by the independent directors of the Group and OGOG for certain services to be provided by the Group to OGOG. For the year ended 30 June 2019 $0.03 million of income has been included in the profit and loss. No other transactions for services have occurred.

On 23 May 2019 NZO farmed into the WA-359-P permit forming a joint venture with Cue, BP and Beach (refer to note 15). NZO immediately reimbursed Cue for back costs totalling $0.7 million and will carry Cue up to $3.7 million. Transactions related to Cue have been eliminated from the Group financial statements.

A number of directors are also directors of other companies and any transactions undertaken with these entities have been entered into as part of the ordinary business of the Group. No directors fees are charged for the four representatives of OGOG who are directors of the Group.

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

$000	**2019**	2018
Short term employee benefits	**3,516**	3,317
Share based payments	**11**	308
Post employment benefits	**45**	-
Total	**3,572**	3,625

25 Share-based payments

The Employee Share Ownership Plan (ESOP) was terminated in 2017. No allocations of new ESOP shares were made in the financial year ending 30 June 2019 (2018: nil). The details below relate to the old scheme which will end as final dates are reached and shares expire. A new long term incentive plan is in the process of being finalised.

The Group's ESOP was open to nominated employees. Under the plan there are currently 3.4 million (2018: 3.4 million) partly paid shares for which employees have paid $0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2019 $0.02 million (2018: $0.05 million) was expensed through the Consolidated Statement of Comprehensive Income. 10,000 shares were exercised in the year ending June 2019 (2018: 2.9 million) and no expired/forfeited shares were converted to ordinary shares and sold (2018: 2.1 million converted to ordinary shares and sold).

Participation in the ESOP was open to any employee (including a non-executive director) of the Group to whom an offer to participate was made by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee, in its discretion, was responsible for determining which employees were to be offered the right to participate in the ESOP, and the number of partly paid shares that could be offered to each participating employee. Under the ESOP partly paid shares were issued on the following terms:

Restriction periods - each partly paid share was issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This was usually 2 years. There was also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

Issue price – this was set for each partly paid share at the time the offer was made to the participant and was the lesser of:

i) 20% premium to the average market price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and
ii) The last sale price of the Group's ordinary shares on the business day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Group's ordinary shares over the 20 Business Days prior to the Final Date).

The pricing model ensures that the participant does not receive a share at a discount to market price at the time the final payment is made but does provide some protection if the market price reduces after the original offer date.

Rights - the rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Group. The partly paid shares rank equally with the ordinary shares in the Group. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Group, are a fraction, equal to the proportion represented by the amount paid up in respect of the share as against the issue price set under the ESOP.

The table below provides a reconciliation of outstanding ESOP shares and their weighted average price.

	Number outstanding	**Weighted average issue price**
Balance at 30 June 2017	8,420	$0.74
Exercised	(2,911)	$0.58
Forfeited and sold	(2,081)	$0.66
Balance at 30 June 2018	3,428	$0.94
Exercised	**(10)**	**$0.57**
Balance at 30 June 2019	**3,418**	**$0.91**

A share based payment expense is recognised based on the fair value of partly paid shares offered to employees at the issue date. The fair value at issue date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the partly paid shares, the vesting criteria, the non-tradable nature of the partly paid shares, the share price at issue date and expected price volatility of the underlying share (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. This value is amortised over the escrow period of the plan, or sooner if the escrow period is reduced.

25 Share-based payments (continued)

The fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

As there was no allocation of ESOP shares during the year, no new valuation took place.

During the year 10,000 ESOP shares were exercised (2018: 2.9 million) resulting in no payments to management and staff (2018: $0.5 million).

26 Commitments and contingent assets and liabilities

(a) Exploration expenditure commitments

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

Commitments relating to Australian permit WA-359-P, which contains the Ironbark prospect, consist of $19.8 million from NZO and $28.3 million from Cue. Of Cue's commitment, approximately $16.4 million will be funded by a free carry arrangement, including $3.7 million from NZO. The remaining $11.9 million will be funded from Cue's cash reserves which have been escrowed for this purpose (refer to note 11).

(b) Operating leases and commitments

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

$000	2019	2018
Within one year	**232**	271
Later than one year and not later than five years	**242**	2
	474	**273**

Operating leases relate to property leases for the Group.

(c) Contingent assets and liabilities

Cue Energy Resources Limited and Cue Resources Inc. were named as defendants, along with a number of other companies, in litigation pending in Texas, USA in relation to the Pine Mills oilfield. On March 27, 2019 the court dismissed the claims against Cue in their entirety. On April 26, 2019, the plaintiff filed an amended lawsuit against Cue and the other defendants. Cue has filed a motion to dismiss, which is now pending in U.S. court.

27 Events occurring after balance date

On 9 July 2019 the Group and O.G. Oil & Gas (Singapore) Pte. Ltd. (OGOG) entered into a scheme implementation agreement under which OGOG is seeking, via a scheme of arrangement, to acquire all of the fully paid ordinary shares of New Zealand Oil & Gas that it does not already own for NZ$0.62 per share.

Independent Auditor's Report

To the shareholders of New Zealand Oil and Gas Limited

Report on the audit of the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of New Zealand Oil and Gas Limited (the 'company') and its subsidiaries (the 'group') on pages 2 to 24:

i. present fairly in all material respects the Group's financial position as at 30 June 2019 and its financial performance and cash flows for the year ended on that date; and

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

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2019;

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

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

Basis for opinion

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

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

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

Our firm has also provided other services to the group in relation to tax compliance and advisory services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Scoping

The consolidated financial statements includes the 50.04% shareholding in Cue Energy Limited ('Cue') and its two production assets, Sampang PSC in Indonesia and Maari oil in New Zealand, in addition to the Kupe asset held by the parent company.

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

In establishing the scope of audit work to be performed by the Component auditor for Group consolidation purposes, we determined the nature and extent of work to be performed would be a full scope audit. We kept in regular communication with component audit team throughout the year with discussions and formal instructions, including review of work performed, where appropriate. We also ensured that the component audit team had the appropriate skills and competencies which are needed for the audit.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1.3 million (2018: $1.3 million determined with reference to a benchmark of group total assets.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Recoverability of oil and gas assets	
Refer to Note 16 to the Financial Report. The recoverability of oil and gas assets is a key audit matter due to the judgement involved in the assessing the recoverable value of the oil and gas assets. Key judgements include; — future oil and gas prices; — oil and gas reserves and forecast production levels; — discount rate; and — future operating costs and capital costs	The procedures performed to assess the reasonableness of the recoverable value of the oil and gas assets included: — comparing future oil price assumptions with third party forecasts and publicly available forward price curves; — comparing future gas price assumptions to either contracted gas or third party forecasts; — comparing the production profiles and proved and probable reserves to third party reserve reports. Reviewing the reserve report to determine if the assumptions were reasonable and in line with our understanding and expectations; — challenging the discount rate used by comparing it to market participants and industry research; and — assessing estimated future costs by comparing to approved budgets and where applicable, third party data and historical trends.

Other information

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

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

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

Our objective is:

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

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

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

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

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates

For and on behalf of

KPMG

KPMG
Wellington

26 August 2019