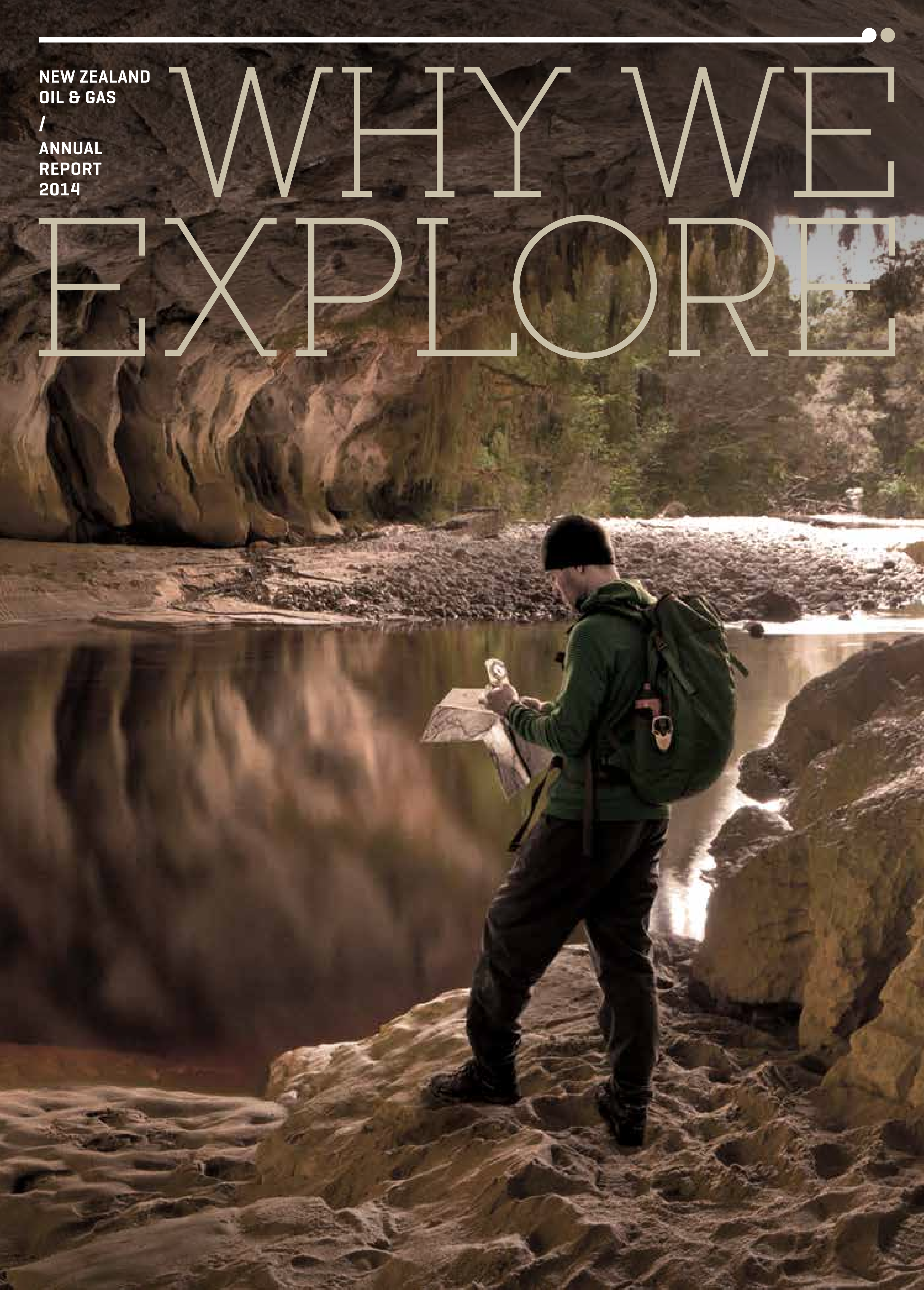
NEW ZEALAND OIL & GAS
/
ANNUAL REPORT 2014

WHY WE EXPLORE



Everyday we continue to search for ancient life beneath the surface - exploring the unknown to discover oil and gas.

In this spirit of discovery we inspire a new generation of explorers.

New Zealand Oil & Gas is proud to support a national touring exhibition of the first dinosaur footprints ever found in New Zealand.

Supporting Science in our Community

A national touring exhibition of dinosaur footprints.

In the 1990s Dr Greg Browne of GNS Science was investigating sands near Nelson, at the top of New Zealand's South Island, to identify where oil and gas deposits may have formed and how they migrated over millions of years. Some of the sands found around Nelson are also buried kilometres deep off Taranaki.

During his research he noticed indents in the rocks that couldn't easily be explained. It took fifteen years from first noticing the footprints to finally conclude they were made by ancient dinosaurs.

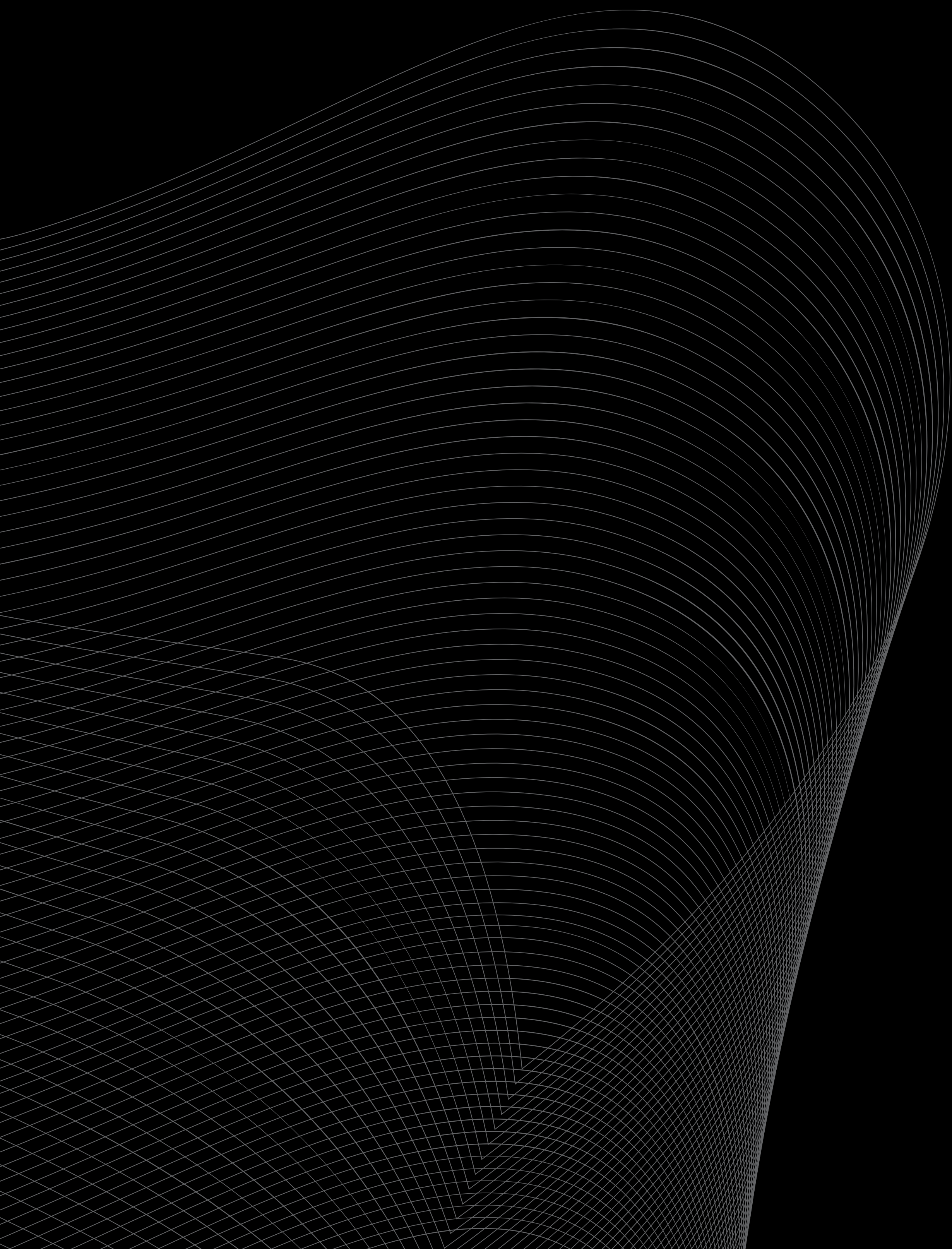
When we search for oil and gas we are exploring for the remnants of plants and animals, like the sauropods, from millions of years ago. The search requires an understanding of how our world has been changed over millions of years by earthquakes, volcanoes, mountain building and erosion.

Today, an exhibition of the footprints and the story of how they were found is touring New Zealand with the support of New Zealand Oil & Gas.

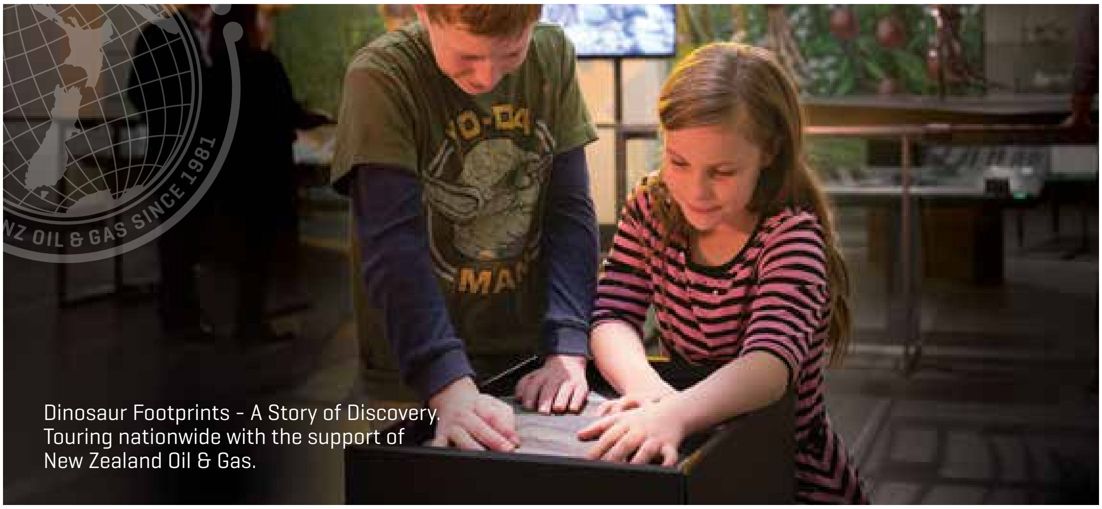
As a science-based exploration business, we are helping communities to understand how science contributes to our quality of life today.

DINOSAUR FOOTPRINTS

A Story of Discovery



AnnualReport2014



Dinosaur Footprints - A Story of Discovery.
Touring nationwide with the support of
New Zealand Oil & Gas.

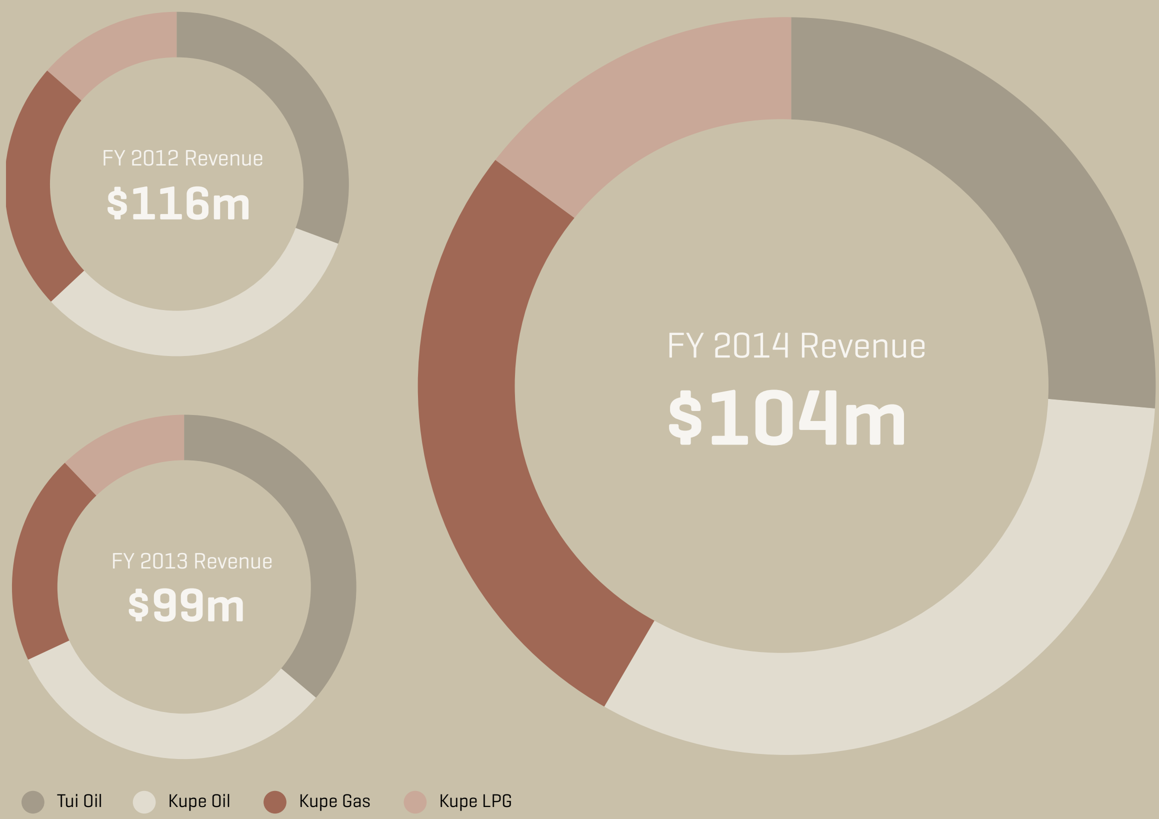
Signed on behalf of the Board of New Zealand Oil & Gas on 2 September 2014

Peter Griffiths Chairman	**Mark Tume** Director

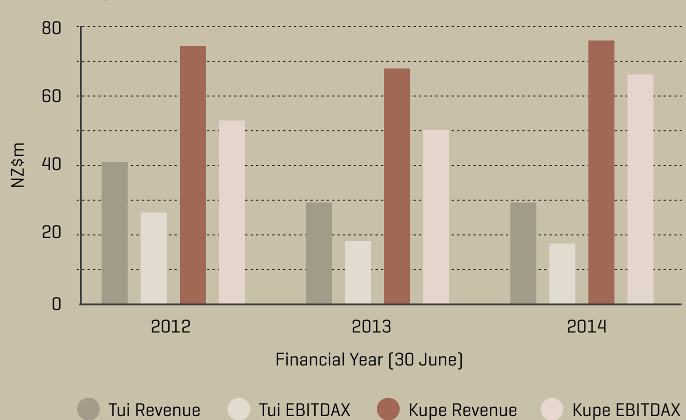
Highlights

	2012	2013	2014	
Exploration and Evaluation Spend Indication of upcoming high level of activity for the company	$9.5m	$42.2m	$74.9m	77%
Net Cash Balance	$162.4m	$158m	$135.1m	-14%
EBITDAX* Solid underlying earnings from operations	$70.5m	$67.8m	$75.7m	12%
Kupe Revenue	$74.3m	$68.8m	$75.9m	10%
Kupe EBITDAX* Solid given production outages (planned and unplanned)	$53m	$50.4m	$65.9m	31%
Tui Revenue	$42m	$30.4m	$27.7m	-9%
Tui EBITDAX* Affected by timing of shipments	$27.2m	$18.1m	$17.6m	-3%
Cash Flows from Operations Solid and able to fund near term development and dividend	$63.2m	$54.3m	$88.0m	62%
Dividend (cents per share) Consistent and affordable	6.0	6.0	6.0	

*Earnings Before Interest, Tax, Depreciation, Amortisation and Exploration write-offs



Kupe & Tui Performance



Production Summary

NZOG share	2012	2013	2014
Tui (Oil-bbls)	275,700	208,500	**300,000**
Kupe (Oil-bbls)	269,400	233,500	**257,700**
Kupe (Gas-TJ)	2,900	2,700	**3,500**
Kupe (LPG-tonnes)	12,500	11,600	**14,400**

Chairman's Review

The strong operating cashflow achieved from our producing fields this year continues to give us the capacity to pursue our strategic options.

The company began the year with sufficient funds to sustain the dividend and continue our exploration programme with its primary focus on New Zealand's offshore basins, balanced with some modest international exposure to spread our risk.

It is also pleasing to note our success in securing a larger share of the Tui field and also settling the overriding royalty negotiations at Kupe. This will ensure improved returns from our producing assets which will support our ongoing exploration investment into the future.

Looking ahead the exploration opportunities for us are evolving. New Zealand's basins are hardly explored and offer potential, but around our coasts the costs for all elements of the exploration cycle are high and the lead time for success is long.

This year's drill programme has clearly demonstrated that the costs of offshore drilling can be high.

Although we have had a modest success with the Pateke-4H well, which will extend the life of Tui, the industry's exploration efforts in New Zealand have yet to deliver a new discovery in what can be considered a busy year.

Our portfolio in the Taranaki looks full for now, and our future efforts will involve a combination of more deepwater exposure around New Zealand, additional international options and potentially new assets.

Deepwater acreage in New Zealand is continuing to attract large and experienced global operators intrigued by New Zealand's potential, one of the last frontiers for exploration in a developed country context. Larger international explorers tend to seek bigger targets with potential for producing assets of significant scale.

Our strategy is to be their partner of choice when they come here because our understanding of local conditions makes New Zealand Oil & Gas a good match with their expertise in deepwater exploration. However pursuing big targets in deepwater costs more, so we have to manage our exposure by being highly selective in the opportunities we choose, and making sure our exposure is manageable.

We have been successful in developing important relationships with large exploration companies and these will be an important part of our program into the future.

We continually screen opportunities to balance our exploration spend, with prospects at each stage of development from early evaluation, through seismic subsurface investigation and drilling, so that over time we have replacement reserves coming through to grow returns as existing reserves deplete.

To grow returns we will continue to build the strongest exploration portfolio we can, while maintaining a focus on efficient operation of our asset base

Internationally we have withdrawn from our Tunisian project as the potential return no longer warranted accepting the risks. We have enjoyed some modest exploration success in Sumatra which is being reviewed for its development potential. Indonesia is very welcoming of explorers like New Zealand Oil & Gas. It provides us with numerous opportunities and we are taking a stronger position in the onshore plays there.

To grow returns we will continue to build the strongest exploration portfolio we can, while maintaining a focus on efficient operation of our asset base. This will provide investors with both an ongoing yield from past successes and the potential upside that the oil and gas industry offers.

I think the future is bright for New Zealand Oil & Gas.

Peter Griffiths
Chairman

Peter Griffiths

Chairman

Andrew Knight

Chief Executive

CEO's Review

Pathways to growth

The company has had a strong year. Operating cashflow increased substantially on the back of steady production from our Kupe and Tui assets, and we grew our capability as we stepped up activity. Operationally, it was a busy year as we led or participated in seismic surveys and drilling wells.

The exploration portfolio is rebalanced towards more involvement in frontier New Zealand basins through the successful bids with Woodside in the 2013 New Zealand Block Offer, and in onshore Indonesia.

Production

The Kupe asset continues to perform strongly with revenue up from additional gas sales and we were able to close out the financial year by resolving long-standing negotiations with one partner around the payment of overriding royalties.

The entitlement to overriding royalties arose in the early days of the Kupe permit, in the 1980s, when New Zealand Oil & Gas was instrumental in the Kupe discovery. The company sold down its equity stake in Kupe in exchange for the promise of a greater share of future production. Negotiations have been ongoing since before Kupe began producing in 2009, and resolution provided an immediate boost to revenue this year with a sustained lift in future earnings.

We have also benefitted from our increased share of the Tui permit through the acquisition of an additional 15 per cent share from Mitsui. The cost of purchasing a greater share of Tui will be recovered this year.

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Global uncertainty is keeping oil prices high and, with steady production, the income sustains the dividend and provides opportunity for investment into potential discoveries that will further sustain the business into the future.

Exploration

Exploration in New Zealand has been busy this year, although without a discovery on a scale to bring down the average rate of one success out of every nine offshore wells drilled.

We did have a success at Pateke-4H, where we drilled into a zone that extends one of the structures already producing in the Tui permit, although the well cost was above our expectations. Planning is underway to tie this new resource back to the Tui FPSO, Umuroa, and I expect production to begin late in the next financial year.

We did have a success at Pateke-4H

The chance of success at Oi was rated at just 16 per cent. We took a smaller stake which stacked up on the balance of risk and potential return, but we didn't find new oil, unfortunately. Matuku, also off Taranaki, was another unsuccessful well. The terms of our participation meant we were not exposed to drilling cost increases and exploration work continues in the Matuku permit with seismic data collected over the 'Kaka' prospect over the summer. We operated seismic surveys in Waru and the Endurance 3D survey in the Canterbury Basin.

We aim to keep our exploration portfolio dynamic by continuously reassessing it for balance and strategic fit so that we replace prospects drilled or screened out at an earlier stage. We withdrew from our onshore Taranaki acreage when we concluded our efforts would be better dedicated to more promising leads. Examples include the two permits we have entered with Woodside in deepwater off Taranaki and Southeast of the South Island. We are also once again studying the New Zealand Block Offer and working through whether some interesting opportunities fit our work programme and the aims of potential partners.

International

Interest in New Zealand from international partners is elevated, partly because of marketing efforts, but also because it is one of the last frontiers in a developed country. We are positioned as partner of choice for explorers who come to New Zealand looking at frontier exploration. In deepwater they are looking for very large potential finds. It is expensive but offers the potential for game-changing discoveries.

We are positioned as partner of choice for explorers who come to New Zealand.

As we enter these new frontier play types, we keep the portfolio balanced with different concepts and investment risks internationally. In Sumatra we are exclusively onshore because it balances our offshore exposure in New Zealand. Palmerah Baru, in the south of the island, is in a prolific oil and gas basin. We also won rights to explore for unconventional prospects beneath our Kisaran area where our plans for development of last year's conventional discovery are progressing.

Our interest in Tunisia is coming to an end. Work in the remaining permit confirmed the presence of prospects that attracted the company in the first place, but the investment risk was going to be too high to drill.

Partner of choice

As we look overseas, our New Zealand values help us to forge enduring partnerships.

New Zealanders are used to being partners. We are respectful of others' perspectives. We are dependable partners who bring an experienced team and keep our commitments. We understand that strong relationships are forged by delivering mutual benefit. Partners value these qualities and want to work with us because of them. Creating enduring partnerships has been a priority over the last year.

Creating enduring partnerships has been a priority over the last year.

We have entered a new kind of partnership with the communities where we work. We are setting up community panels in Taranaki and the South Island that will formally set expectations for our corporate behaviour each year. We will publicly report on our performance.

We have begun signing relationship agreements with community organisations, including Taranaki iwi and the Yellow-Eyed Penguins Trust based on the North Otago coast.

The agreements record our intention to be good neighbours, to discuss and gain feedback about ourselves and our activities as well as to talk regularly with an emphasis on opportunities for mutual benefit.

We are seeking to become a part of the communities where we operate as it is consistent with our New Zealand values, while we also benefit by being part of the local community and positioned as New Zealand's oil and gas business. Finding, developing and producing a resource takes decades, so strategies and partnerships with communities and fellow explorers need to endure, not be short-term or transactional.

Through the annual Block Offer round in New Zealand, and internationally as the strategy allows, our alliances help us to extend our capability, enter new exploration opportunities and create more value from our assets.

With a strong balance sheet and the ability to sustain a dividend and an ongoing exploration spend of around US$35 million a year, the company is positioned to deliver further value for our shareholders.

Andrew Knight
Chief Executive

Directors

David Scoffham
Independent Director

Peter Griffiths
Independent Chairman

Rodger J Finlay
Independent Director

Mark Tume
Independent Director

Rod Ritchie

Independent Director

Andrew Knight

Chief Executive &
Managing Director

Paul Foley

Independent Director

Directors

Peter Griffiths - Independent Chairman

Peter Griffiths joined the Board of New Zealand Oil & Gas in December 2009, having retired after 21 years with BP, the last 10 years of which he was Managing Director of BP NZ. Peter was previously involved in offshore oil and gas field operations in Australasia, Malaysia and the United Kingdom. He is Chairman of Z Energy, Deputy Chair of the Civil Aviation Authority, and is on the Board of Marsden Maritime Holdings, and New Zealand Diving and Salvage Ltd. He holds a BSc (Hons) from Victoria University in Wellington.

Rodger J Finlay - Independent Director

Rodger Finlay joined the Board of New Zealand Oil & Gas in February 2012. Rodger has more than thirty years experience in the financial services industry including senior investment banking and funds management positions with a range of major institutions, specialising in the global natural resource sectors. Rodger has a Bachelor of Commerce (Accounting and Finance) from the University of Otago. He is a member of the NZ Institute of Chartered Accountants and the NZ Institute of Directors. He is currently Chairman of Mundane Asset Management, Deputy Chairman of Rural Equities Limited, a Board Member of Tandou Limited and a Director of Moeraki Limited.

Andrew Knight - Chief Executive and Managing Director

Andrew Knight joined the Board of New Zealand Oil & Gas in January 2008. He is a Chartered Accountant and graduate of Waikato University with a BMS (Hons). Andrew had his own consultancy business and previously held executive management roles with Vector and NGC and worked in New Zealand and Australia with The Australian Gas Light Company, Fletcher Challenge Energy and Coopers & Lybrand. His other directorships include the Petroleum Exploration and Production Association of New Zealand, Gas Industry Company Ltd and Sea Group Holding Ltd. He is a member of the NZ Institute of Charted Accountants

Rod Ritchie - Independent Director

Rod Ritchie joined the board of New Zealand Oil & Gas in 2013. He graduated with a BSc, University of Tulsa. He has 36 years of experience as a line manager and a Health, Safety, Security and Environment executive in the oil and gas industry – including being the Corporate Senior Vice President of HSSE at OMV based in Vienna. Other Directorships include Sparc (Aust) Pty Ltd and is a member of the Society of Petroleum Engineers.

David Scoffham - Independent Director

David Scoffham joined the Board of New Zealand Oil & Gas in 2003. David is a geophysicist with more than 40 years international experience in the upstream oil and gas industry, including exploration management at Shell International and UK Independent Enterprise Oil plc. David is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics).

Paul Foley - Independent Director

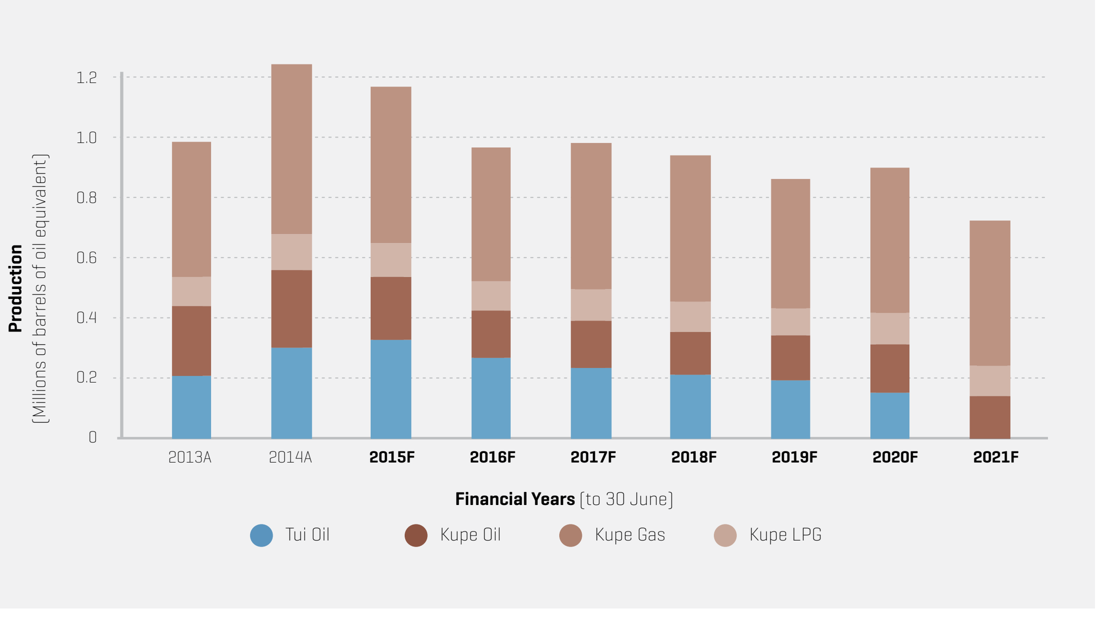
Paul Foley became a director of New Zealand Oil & Gas in 2000. He obtained an LLB and BCA from Victoria University of Wellington and is a senior corporate/commercial lawyer based in Wellington, where he is a partner in Minter Ellison Rudd Watts. Paul has over 25 years experience working with companies in the financial services, manufacturing and energy fields, with significant involvement with major petroleum exploration and production companies. He is currently Chairman of the Board of Grosvenor Financial Services Group Limited, and Deputy Chairman of the Board of the National Provident Fund.

Mark Tume - Independent Director

Mark joined the Board of New Zealand Oil & Gas in February 2012. Over a 25-year career in infrastructure and finance, Mark has held a variety of senior roles in areas such as investment banking, capital markets, asset and liability management, and risk control. Mark is now a full time director and is also on the Boards of the New Zealand Refining Company, Infratil (and related subsidiaries), and the Guardians of New Zealand Superannuation. Mark holds a Bachelor of Business Studies and a Diploma in Banking Studies (Treasury Management) from Massey University and was awarded the Hunter Fellowship from Victoria University in 2008.

Reserves & Production

Production - Actual & Forecast 2P Production



Reserves

NZOG's remaining Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2014:	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Kupe	1.6	35	151	8.5
Tui	1.2			1.2
Total				**9.7**

* Million barrels of oil equivalent have been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion facts consistent with the Society of Petroleum Engineers (SPE) guidelines.

Geographical location: New Zealand

			Production	1P			2P		
Statement Date			FY2013/14	Developed	Undeveloped	Total	Developed	Undeveloped	Total
30/6/2013	OIL	mmbbl		1.8	0.1	1.9	2.0	0.6	2.6
30/6/2013	GAS	PJ		23.6	3.9	27.5	25.5	13.2	38.7
30/6/2013	LPG	ktonnes		101.2	15.8	117.0	109.6	55.4	165.0
30/6/2014	OIL*	mmbbl	0.5	1.8	0.1	1.9	2.3	0.6	2.8
30/6/2014	GAS	PJ	3.5	20.1	3.9	24.0	22.0	13.2	35.2
30/6/2014	LPG	ktonnes	14.4	86.8	15.8	102.6	95.1	55.4	150.6

* Effective 1 October 2013, New Zealand Oil & Gas increased its share of Tui oil fields Reserves from 12.5% to 27.5% by purchasing a further 15% participating interest in the Tui Mining Permit.

Reserves are the quantities of petroleum anticipated to be commercially recoverable from known accumulations from a given date forward; that are judged to be discovered, recoverable, commercial and remaining.

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

Developed reserves are those expected to be recoverable from existing wells and facilities. Undeveloped reserves are those that will be recovered through future investments (e.g. through installation of compression, new wells into different but known reservoirs, or infill wells that will increase recovery). Total reserves are the sum of developed and undeveloped reserves at a given level of certainty.

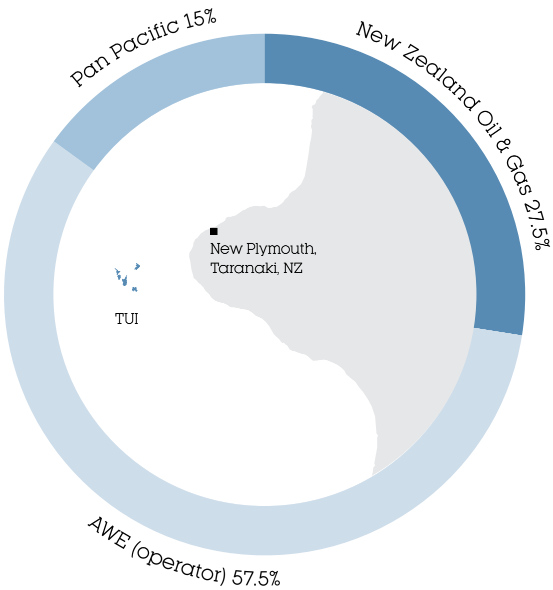
Oil and gas reserves are reported as at 30 June 2014, and in accordance with Section 10.11 of the NZX Listing Rules.

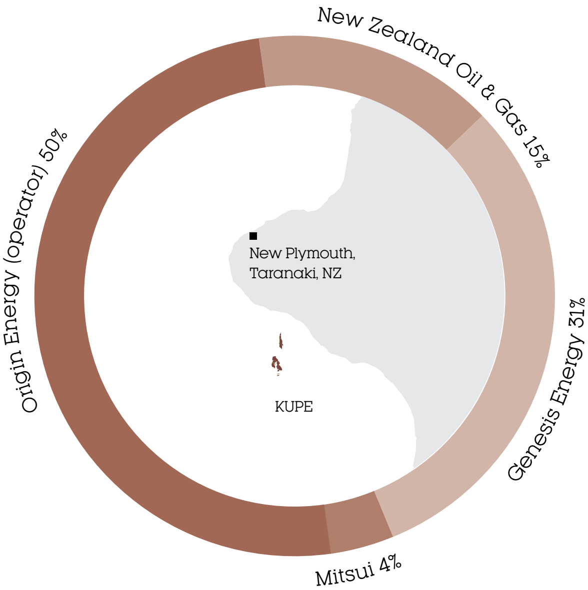
The Tui Reserves estimate is based on the latest information provided by the field operator. The estimate is the result of decline curve analysis of the Tui, Pateke and Amokura well production data.

The Kupe Reserves estimate is based on the latest information provided by the field operator. It is the result of deterministic reservoir simulation modelling by the operator using a compositional simulator, matched with current production history on a well by well basis.

New Zealand Oil & Gas Vice-President Operations and Engineering Andrew Jefferies reviews reserves holdings twice a year by reviewing data supplied from the field operator and comparing assessments at scheduled Technical Committee Meetings. The stated reserves are consistent with reserves publicly stated by the field operators. The statement has been peer reviewed by Michael Adams Reservoir Engineering Limited.

This reserves statement is approved by New Zealand Oil & Gas Vice-President Operations and Engineering Andrew Jefferies BEng (Mech Hons), Msc Pet Eng MBA, an SPE (Society of Petroleum Engineers) Certified Petroleum Engineer with over 23 years of industry experience. This reserves statement is based on, and fairly represents information and supporting documentation prepared by Mr Jefferies from information derived from the respective field operators.





Tui

Tui production remained stable throughout the year. Two shutdowns occurred: to commission the Crude Oil Burning project, and to carry out flowline replacement. These were executed on schedule and without incident.

The Crude Oil Burning project will allow cheaper crude oil to be used as fuel rather than diesel and will significantly reduce operating costs, although with the loss of some oil reserves (an estimated 100,000 bbl), which has been reflected in the 30 June Reserves.

In Q3 the Tui operation completed a year Lost Time Injury free, an important HSE milestone.

The Tui area oil fields, lie 50 kilometres off the Taranaki coast of New Zealand and have now produced more than 34 million barrels of oil.

In October 2013 New Zealand Oil & Gas more than doubled its interest in the field, from 12.5 per cent to 27.5 per cent when Mitsui E&P Australia Pty Limited sold its 35 per cent share to the remaining Tui partners. The other partners are Australian Worldwide Exploration (AWE) (Operator), 57.5%; and Pan Pacific Petroleum, 15%.

The Tui development includes four production wells from three separate oil accumulations; Tui, Pateke and Amokura. The Pateke-4H well was drilled in 2014 and is being tied back to the Tui FPSO for production in 2015.

Kupe

Production has been stable throughout the year with excellent plant availability exceeding 99% in the later stages of the year. Some outages were experienced on the Amine plant, which reduced LPG yield over the last quarter of 2013 but were resolved in the first quarter of 2014.

Shutdowns and statutory inspections were carried out on the Amine and MEG units. These were completed 5 days ahead of plan with no material unexpected defects.

New Zealand Oil & Gas has a 15% stake in the Kupe gas and oil field, which lies 30 kilometres off the South Taranaki coast of New Zealand. It produces sales gas, LPG and light oil.

The company's Kupe partners are Origin Energy (50%), Genesis Energy (31%), and Mitsui (4%). The Kupe Central Field Area comprises three production wells, a normally unstaffed offshore platform, a 30 kilometre pipeline and associated umbilical pipeline to shore, an onshore production facility near Hawera, and oil storage facilities at New Plymouth.

Permit Progress

Taranaki

EVALUATION | SEISMIC | FURTHER EVALUATION | DRILLING | APPRAISAL | DEVELOPMENT

PRODUCING ASSETS

KUPE
15%

PRODUCING
Production began 2009 - Work underway to evaluate further development opportunities

TUI
27.5%

PRODUCING
Production began 2007 - Oi and Pateke drilled 2014 - Pateke tied back for production 1H2015

VULCAN
30%

EARLY EVALUATION
Acquired April 2014 - 3D seismic 2014-15

MATUKU
12.5%

SEISMIC SURVEY COMPLETED
'Kaka' 3D survey acquired - Decision point November 2014

TAKAPOU
50%

SEISMIC SURVEY COMPLETED
Acquired 2012 - seismic data acquired 2013 - drill or drop decision Sept 2014

TARANGA
50%

SEISMIC SURVEY COMPLETED
Acquired 2012 - 3D seismic 2014-15 - drill or drop decision Sept 2014

WARU
100%

SEISMIC SURVEY COMPLETED
Seismic data acquired 2014

KAHERU
35%

DRILLING
Drilling 2015

Canterbury Great South Basin

EVALUATION SEISMIC FURTHER EVALUATION DRILLING APPRAISAL DEVELOPMENT

TOROA
30%

EARLY EVALUATION
Acquired April 2014 - 3D seismic 2014-15

CLIPPER
50%

SEISMIC SURVEY COMPLETED
Acquired 2013 - 3D seismic 2013-14

GALLEON
100%

SEISMIC SURVEY COMPLETED
Acquired 2013 - 3D seismic 2013-14

Indonesia

EVALUATION SEISMIC FURTHER EVALUATION DRILLING APPRAISAL DEVELOPMENT

MNK
KISARAN
11.25%

EARLY EVALUATION
Acquired 2014

KISARAN
22.5%

APPRAISAL
Drilled 2013 - Final Investment Decision late 2014

PALMERAH
BARU
26%

EARLY EVALUATION
Acquired 2014 - 2D, 3D and at least one well before 2017

BOHOROK
45%

SEISMIC SURVEY
2D seismic survey 2014

Exploration - New Zealand

Taranaki

New Zealand Oil & Gas participated in drilling prospects in the Matuku permit, and in the Tui permit at Oi and Pateke-4H.

Seismic surveys were run in the Matuku and Waru permits.

The Vulcan permit was acquired in the 2013 Block Offer and during the year the Kanuka, Kakapo and onshore Manaia permits were relinquished.

The company is preparing to drill (as operator) in the Kaheru prospect in 2015 and studying options for further exploration in the producing Kupe permit.

Matuku (PEP 51906)

Seismic survey completed

12.5%	**New Zealand Oil & Gas**
65%	OMV (Operator)
22.5%	Octanex

The Matuku permit covers 1,613 square kilometres and is adjacent to three producing fields with the Maui gas/condensate field to the east, Tui oil field to the north-east and Maari to the south.

The Matuku prospect was drilled in the 2013-14 summer. The well encountered expected sandstones in the primary and secondary targets (Kapuni Group F-sands and North Cape Formation) but commercial volumes of oil and gas were not present.

Processing is underway on the results of the 'Kaka' 3D seismic survey acquired last summer over exploration leads in the southern half of the Matuku permit. Results are expected in October. Interpretation of this data will contribute to a decision that must be made by November about the future of the permit. To continue, the joint venture must decide whether to collect more 3D seismic data and drop 25% of the permit area, or to drop 50% of the acreage without acquiring new seismic data.

Vulcan (PEP 55793)

Early evaluation

30%	**New Zealand Oil & Gas**
70%	Woodside Energy (New Zealand) (Operator)

'Vulcan' covers 2418 square kilometres. The permit is frontier deepwater acreage in which no wells have been previously drilled. A 3D seismic survey will be conducted in the summer of 2014-15.

Takapou (PEP 53473)

Decision Sept 2014

50%	**New Zealand Oil & Gas (Operator)**
50%	Octanex

The 853 square kilometre Permit is situated in relatively shallow water depth (120m - 135 metres), immediately adjacent to the Tui oil field which produces from the same Paleocene age 'F' Sands that are expected in the south-east part of the Permit.

The Permit is covered by a dense grid of 2D seismic data which has been reprocessed and re-mapped. In early 2013 a 595 square kilometre 3D seismic survey was acquired over the Kokako and Toutouwai Leads.

The Joint Venture is undertaking a farm-out campaign to bring in a new JV partner prior to making a drilling commitment by September. If a decision is made to commit to a well, it would need to be drilled by March 2016.

Taranga (PEP 52593)

Decision Sept 2014

50%	**New Zealand Oil & Gas (Operator)**
50%	Octanex

This permit covers 3,509 square kilometres in offshore Taranaki lying immediately adjacent to the north of the Takapou permit (PEP 53473) and north of the producing Tui field in the Western Taranaki fairway.

In early 2013 a 298 square kilometre 3D seismic survey was acquired over the Karoro Lead. Efforts to farm out equity in the permit are proceeding ahead of a decision by September whether to drill a well before March 2016.

Please refer to Permit Maps in the Appendix

Tui [PMP 38158]

Producing

27.5%	**New Zealand Oil & Gas**
57.5%	AWE [Operator]
15%	Pan Pacific Petroleum

The Tui Mining Permit covers 467 square kilometres.

During the financial year New Zealand Oil & Gas increased its interest in the Tui asset from 12.5 per cent to 27.5 per cent.

Two wells were drilled within the Tui permit with the Kan Tan IV in 2014.

The Pateke-4H well intersected an oil-bearing reservoir as expected.

The Pateke structure resembles two shallow upturned bowls side by side, up to five or six kilometres across and only nine or ten metres deep. The existing Pateke field draws oil from one bowl and the bottom of the second. Pateke-4H drilled into the second bowl, and then horizontally across it to drain resources not being reached in the first.

Horizontal drilling into Pateke-4H ceased at 4,772 metres, earlier than the 5,361 metres planned because of concerns about instability in the well. As the reservoir conditions encountered were better than expected, the shorter horizontal section should provide a recovery rate similar to the results experienced in the neighbouring Pateke 3H well.

Pateke-4H has been suspended and planning is underway to install subsea infrastructure and a tie-line back to the Tui FPSO, Umuroa. Work will begin early next year with production expected in the first half of 2015.

Following Pateke, the Kan Tan IV rig moved to the Oi prospect about 12 kilometres to the Northeast, to test whether some of the resources that filled the Tui fields had migrated to this structure. New Zealand Oil & Gas assessed the chance of commercial success at 16 per cent, and participated at a reduced equity.

After encountering difficulties the joint venture decided to abandon Oi-1 and drill a new well, Oi-2, nearby.

It reached a total depth of 3,908 metres on 7 July, but no significant oil shows were encountered and real time well data indicated that the reservoir is water bearing. Oi-2 was plugged and abandoned.

Kaheru [PEP 52181]

Drilling 2015

35%	**New Zealand Oil & Gas [Operator]**
40%	TAG Oil
25%	Beach Energy

The Kaheru prospect lies in 25 metres of water, 8 kilometres from shore to the east of the Kupe gas and oil field in an exploration permit which covers 312 square kilometres.

It is located on a prolific hydrocarbon trend, with multiple oil and gas fields located to the north, with the closest of those being the Kauri, Rimu & Manutahi fields about 10 kilometres away. Multiple reservoir targets are identified and have been significantly de-risked following extensive study including reverse time migration reprocessing, structural modeling and detailed sedimentological analysis.

Preparations are well underway for an exploration well to be drilled in the Kaheru prospect using a jack-up rig. A rig will not be available before the second half 2015.

The Kaheru prospect is a long-recognised structure with the potential to extend the producing trend southward. 3D seismic coverage and advanced processing undertaken by the joint venture has enhanced the structural imaging.

Waru [PEP 54857]

Seismic survey completed

100%	**New Zealand Oil & Gas [Operator]**

Waru is offshore on Taranaki's south coast covering around 525 square kilometres. No wells have been drilled in this permit. The block lies within the source kitchen for the Maui and Maari oil and gas fields.

A 2D seismic survey over about 540 kilometres was completed in April 2014 by the vessel Aquila Explorer, and data has been sent for processing. The company must make a decision by December 2016 whether to commit to drilling a well, which would be required before the end of 2017.

Canterbury Great South Basin

The Canterbury and Great South Basins are the major focus for frontier conventional oil and gas exploration in New Zealand.

In the financial year, New Zealand Oil & Gas conducted 3D seismic surveys in the Clipper and Galleon permits, and acquired an interest in the Toroa permit.

Galleon [PEP 55792]

Seismic survey completed

100%	**New Zealand Oil & Gas (Operator)**

The permit was formally awarded on 1 April 2014. The seismic commitment for this permit was completed in early January.

The survey mapped a tie line from a previous well in Galleon in the 1980s to the Clipper 3D survey, which helps geophysicists analyse the Clipper subsurface potential by tying seismic lines to actual drill results.

A decision on whether further 3D seismic will be conducted in the permit has to be made before October 2015.

Clipper [PEP 52717]

Seismic survey completed

50%	**New Zealand Oil & Gas (Operator)**
50%	Beach Energy

This permit is off the Canterbury coast and covers 3,423 square kilometres.

Extensive 2D seismic surveys were conducted in the Canterbury Basin in the 1970s and 1980s. The only existing well in the block, Clipper-1, was drilled in the mid-1980s and identified hydrocarbons during wireline logging from a depth of over 4000 metres.

New Zealand Oil & Gas completed a 3D seismic survey covering approximately 700 square kilometres on 31 December 2013.

Toroa [PEP 55794]

Early evaluation

30%	**New Zealand Oil & Gas**
70%	Woodside Energy (New Zealand 55794) (Operator)

'Toroa' is southeast of the South Island and covers 9835 square kilometres. Two wells have previously been drilled in PEP 55794 and encountered non-commercial hydrocarbon shows.

Planning is underway towards a 3D seismic survey in the summer of 2014-15.

PROGRESS BAR KEY

Progress bars indicate stages of exploration indicated in this report.

Early evaluation

Seismic

Seismic survey completed

Drilling

Appraisal

Development

A balanced portfolio aims for prospects at each stage so that there are enough in progress to replace producing reserves as they decline.

A typical portfolio has more prospects at early stages and fewer close to development because each stage of evaluation will screen out some prospects - the most promising theories are evaluated with seismic surveys, then prospects are weighed to test whether they are economic to drill. Unsuccessful drilling removes more. The portfolio also aims to keep annual exploration spend around the target by balancing equity levels, the cost of activities, jurisdiction and play types.

Exploration - International

Please refer to Permit Maps in the Appendix

Indonesia

Kisaran Production Sharing Contract

Appraisal

22.5% **New Zealand Oil & Gas**
55% Pacific Oil & Gas (Operator)
22.5% Bukit Energy

This block, located in the Central Sumatra Basin, covers an area of 871 square kilometres.

Two wells in the PSC were successfully drilled in 2013. A Plan of Development is in the final stages of drafting and will be submitted to the government regulator before year end. The associated final investment decision is expected then.

Bohorok Production Sharing Contract

Seismic survey

45% **New Zealand Oil & Gas**
45% Bukit Energy (Operator)
10% Surya Buana Lestarijaya Bohorok

This block in the Northern Sumatra Basin covers an area of approximately 5,000 square kilometres.

The focus of work in 2014 has been acquisition of a 2D seismic survey of approximately 260 linear kilometres. In combination with ongoing technical work, this survey will allow the potential drilling targets to be prioritised.

Palmerah Baru Production Sharing Contract

Early evaluation

36% **New Zealand Oil & Gas**
54% Bukit Energy (Operator)
10% PT SNP Indonesia

This Production Sharing Contract in onshore south Sumatra covers approximately a thousand square kilometres in a prolific producing basin. The Palmerah Baru block is surrounded by oil and gas fields, including a very large field to the south and a recent discovery to the south-southeast. Because of successful developments in the area, the infrastructure necessary to transport product to markets is nearby.

Under the Production Sharing Contract the joint venture will be committed to an initial three-year exploration work programme to include both 2D and 3D seismic acquisition and one exploration well before 2017.

MNK Kisaran Production Sharing Contract

Early evaluation

11.25% **New Zealand Oil & Gas**
33.75% Bukit Energy
55% Pacific Oil & Gas (Operator)

This permit covers the rights to explore 'unconventional' oil and gas resources in the same sub-basin as the conventional Kisaran PSC.

Unconventional resources are those where substantial volumes of oil and gas are believed to be present, but the rate of production is limited by poor quality reservoir rocks. Commercial development of some of these resources has been made possible by new extraction technologies, particularly in North America.

The joint venture equity shares in the unconventional resource differ from shares in the conventional PSC.

The first three-year work commitment includes geological and geophysical studies in each year and drilling a vertical exploration well in year three.

Tunisia

Diodore Prospecting Permit

100% **New Zealand Oil & Gas (Operator)**

This offshore permit covers an area of 1,248 square kilometres in relatively shallow (less than 100 metres) water depth and is in the southern Gulf of Gabes, an established oil and gas producing region off the coast of Tunisia. It was originally granted for a 2 year term from September 2011, which was extended for a 3rd year due to delays in accessing existing seismic data for reprocessing.

While results from seismic work confirmed the existence of the opportunities that attracted New Zealand Oil & Gas to the permit, the leads were believed to be smaller than either potential farmin partners or New Zealand Oil & Gas were seeking.

The prospecting permit expires at the end of September. New Zealand Oil & Gas has notified the regulator that it does not intend to commit to a well in the next three years, which would have been required to convert the permit to an exploration permit. When the prospecting permit expires the company will no longer have involvement in Tunisia.

Consolidated Financial Statements

for the year ended 30 June 2014

The Board of Directors of New Zealand Oil & Gas Limited authorised these Consolidated Financial Statements for issue on 2 September 2014.

For and on behalf of the Board.

PW Griffiths	**M Tume**
Chairman	Director
2 September 2014	2 September 2014

Consolidated Income Statement

For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Revenue	4	**103,622**	99,259	**-**	-
Operating costs	5	**(47,733)**	(43,917)	**-**	-
Gross profit		**55,889**	55,342	**-**	-
Other income	4	**11,758**	9,644	**1,356**	447
Exploration and evaluation costs expensed	14	**(29,529)**	(15,090)	**-**	-
Other expenses	6	**(10,638)**	(10,260)	**(10,138)**	(10,030)
Results from operating activities		**27,480**	39,636	**(8,782)**	(9,583)
Finance cost	7	**(6,566)**	(1,699)	**(25,649)**	(14,063)
Finance income	7	**4,200**	7,613	**27,641**	29,632
Net finance income/(costs)	7	**(2,366)**	5,914	**1,992**	15,569
Profit/(loss) before income tax and royalties		**25,114**	45,550	**(6,790)**	5,986
Income tax expense	9	**(7,310)**	(10,234)	**2,359**	26
Royalties expense	8	**(7,726)**	(9,371)	**-**	-
Profit/(loss) for the year		**10,078**	25,945	**(4,431)**	6,012
Profit/(loss) for the year attributable to:					
Equity holders of parent		**10,078**	25,945		
		10,078	25,945		
Basic earnings per share attributable to shareholders:	22	**2.4**	6.5		
Net tangible asset backing per share		**81**	86		

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2014

		Group		Parent	
	Notes	**2014** $'000	**2013** $'000	**2014** $'000	**2013** $'000
Profit/(loss) for the year		**10,078**	25,945	**(4,431)**	6,012
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Fair value gain/(loss) through other comprehensive income	21	**(2,091)**	134	**-**	-
Items that may be reclassified to profit and loss					
Foreign currency translation differences	21	**(6,770)**	695	**-**	-
Total comprehensive income for the year, net of tax		**1,217**	26,774	**(4,431)**	6,012
Total comprehensive income for the year, net of tax:					
Attributable to equity holders of the parent		**1,217**	26,774		

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Consolidated Statement of Financial Position

As at 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
ASSETS					
Current assets					
Cash and cash equivalents	10	**135,075**	158,018	**13,126**	124,809
Receivables and prepayments	11	**27,102**	30,832	**135,568**	51,170
Inventories		**6,930**	1,259	**-**	-
Current tax receivables		**1,752**	-	**-**	2,834
Total current assets		**170,859**	190,109	**148,694**	178,813
Non-current assets					
Evaluation and exploration assets	14	**54,927**	44,480	**60**	-
Oil and gas assets	15	**223,801**	198,634	**-**	-
Property, plant and equipment		**1,095**	595	**993**	545
Intangible assets		**724**	116	**724**	116
Deferred tax asset	19	**-**	-	**2,601**	98
Other financial assets	16	**9,842**	11,915	**65,200**	57,172
Total non-current assets		**290,389**	255,740	**69,578**	57,931
Total assets		**461,248**	445,849	**218,272**	236,744
LIABILITIES					
Current liabilities					
Payables	17	**32,349**	18,555	**3,607**	1,660
Current tax liabilities		**-**	1,755	**1,085**	-
Other current liabilities		**304**	-	**-**	-
Total current liabilities		**32,653**	20,310	**4,692**	1,660
Non-current liabilities					
Borrowings		**776**	197	**-**	-
Restoration and rehabilitation provision	18	**41,173**	30,197	**-**	-
Deferred tax liability	19	**44,507**	37,151	**-**	-
Total non-current liabilities		**86,456**	67,545	**-**	-
Total liabilities		**119,109**	87,855	**4,692**	1,660
Net assets		**342,139**	357,994	**213,580**	235,084
EQUITY					
Share capital	20	**377,662**	370,711	**377,662**	370,711
Reserves	21	**(25,566)**	(16,539)	**6,519**	6,685
Retained earnings		**(9,957)**	3,822	**(170,601)**	(142,312)
Total equity		**342,139**	357,994	**213,580**	235,084

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2014

GROUP		Attributable to equity holders of New Zealand Oil & Gas Limited			
	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2013		**370,711**	(16,539)	**3,822**	357,994
Comprehensive income					
Profit/(loss) for the year		**-**	-	**10,078**	10,078
Other comprehensive income, net of tax:					
Fair value loss through other comprehensive income	21	**-**	(2,091)	**-**	(2,091)
Foreign currency translation differences	21	**-**	(6,770)	**-**	(6,770)
Total comprehensive income		**-**	(8,861)	**10,078**	1,217
Transactions with owners:					
Shares issued	20	**6,951**	-	**-**	6,951
Share based payment	21	**-**	154	**-**	154
Transfer of expired share based payments during the year	21	**-**	(320)	**320**	-
Dividend paid (6 cents per ordinary share)		**-**	-	**(24,177)**	(24,177)
Supplementary dividend		**-**	-	**(1,023)**	(1,023)
Foreign investor tax credit		**-**	-	**1,023**	1,023
Balance as at 30 June 2014		**377,662**	(25,566)	**(9,957)**	342,139
Balance at 1 July 2012		**358,584**	(17,243)	**13,670**	355,011
Comprehensive income					
Profit/(loss) for the year		**-**	-	**25,945**	25,945
Other comprehensive income, net of tax:					
Fair value gain through other comprehensive income	21	**-**	134	**-**	134
Foreign currency translation differences	21	**-**	695	**-**	695
Total comprehensive income		**-**	829	**25,945**	26,774
Transactions with owners:					
Shares issued	20	**12,127**	-	**-**	12,127
Share based payment	21	**-**	201	**-**	201
Transfer of expired share based payments during the year	21	**-**	(326)	**326**	-
Dividends paid (9 cents per ordinary share)		**-**	-	**(36,119)**	(36,119)
Supplementary dividend		**-**	-	**(1,107)**	(1,107)
Foreign investor tax credit		**-**	-	**1,107**	1,107
Balance as at 30 June 2013		**370,711**	(16,539)	**3,822**	357,994

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Consolidated Statement of Changes in Equity (continued)

For the year ended 30 June 2014

PARENT	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2013		**370,711**	6,685	**(142,312)**	235,084
Comprehensive income					
Profit/(loss) for the year		-	-	**(4,431)**	(4,431)
Total comprehensive income		-	-	**(4,431)**	(4,431)
Transactions with owners:					
Shares issued	20	**6,951**	-	-	6,951
Share based payment	21	-	154	-	154
Transfer of expired share based payments during the year	21	-	(320)	**320**	-
Dividend paid (6 cents per ordinary share)		-	-	**(24,178)**	(24,178)
Supplementary dividend		-	-	**(1,023)**	(1,023)
Foreign investor tax credit		-	-	**1,023**	1,023
Balance as at 30 June 2014		**377,662**	6,519	**(170,601)**	213,580
Balance at 1 July 2012		**358,584**	6,810	**(112,531)**	252,863
Comprehensive income					
Profit/(loss) for the year		-	-	**6,012**	6,012
Total comprehensive income		-	-	**6,012**	6,012
Transactions with owners:					
Shares issued	20	**12,127**	-	-	12,127
Share based payment	21	-	201	-	201
Transfer of expired share based payments during the year	21	-	(326)	**326**	-
Dividends paid (9 cents per ordinary share)		-	-	**(36,119)**	(36,119)
Supplementary dividend		-	-	**(1,107)**	(1,107)
Foreign investor tax credit		-	-	**1,107**	1,107
Balance as at 30 June 2013		**370,711**	6,685	**(142,312)**	235,084

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Consolidated Statement of Cash Flow

For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Cash flows from operating activities					
Receipts from customers		**108,560**	98,015	**-**	-
Interest received		**4,170**	5,534	**4,078**	5,209
Other revenue		**9,992**	270	**-**	-
Production and marketing expenditure		**(19,574)**	(20,986)	**-**	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		**(2,198)**	(12,064)	**(5,904)**	(9,086)
Royalties paid		**(10,487)**	(11,204)	**-**	-
Interest paid		**-**	(1,296)	**-**	-
Income taxes paid		**(2,510)**	(4,013)	**2,200**	(4,000)
Net cash inflow / (outflow) from operating activities	23	**87,953**	54,256	**374**	(7,877)
Cash flows from investing activities					
Receipt of loan repayment from Associate		**-**	7,427	**-**	-
Return of capital from Pan Pacific Petroleum NL		**-**	5,554	**-**	-
Exploration and evaluation expenditure		**(74,883)**	(42,239)	**-**	-
Oil and gas expenditure		**(1,384)**	(5,179)	**-**	-
Subsidiary shares issued to New Zealand Oil & Gas Limited		**-**	-	**(15,406)**	(6,246)
Purchase of oil and gas interest		**(7,733)**	-	**-**	-
Purchase of property, plant and equipment		**(1,486)**	(404)	**(1,394)**	(397)
Loan from / (to) wholly owned subsidiaries		**-**	-	**(71,744)**	(10,928)
Receipt / (payment) of performance bonds		**(1,097)**	888	**(1,200)**	828
Net cash inflow / (outflow) from investing activities		**(86,583)**	(33,953)	**(89,744)**	(16,743)
Cash flows from financing activities					
Issues of shares		**20**	563	**20**	563
Repayment of borrowings		**-**	(46,603)	**-**	-
Proceeds from sale of forfeited shares		**506**	2,496	**506**	2,496
Other		**(1)**	18	**-**	-
Dividends paid		**(18,776)**	(28,152)	**(18,776)**	(28,152)
Net cash inflow / (outflow) from financing activities		**(18,251)**	(71,678)	**(18,250)**	(25,093)
Net increase / (decrease) in cash and cash equivalents		**(16,881)**	(51,375)	**(107,620)**	(49,713)
Cash and cash equivalents at the beginning of the year		**158,018**	209,221	**124,809**	174,790
Effects of exchange rate changes on cash and cash equivalents		**(6,062)**	172	**(4,063)**	(268)
Cash and cash equivalents at end of year	10	**135,075**	158,018	**13,126**	124,809

The above consolidated statement should be read in conjunction with the accompanying notes on pages 30 to 62.

Notes to the Consolidated Financial Statements

For the year ended 30 June 2014

1. General information

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

The financial statements presented herewith as at and for the year ended 30 June 2014 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 2 September 2014.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated Group.

A) Basis of preparation

Statement of compliance

From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") has come into force replacing the Financial Reporting Act 1993, this is effective for all for profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for New Zealand Oil & Gas Limited's 30 June 2015 year end. It is expected that the change in legislation will have no material impact on New Zealand Oil & Gas Limited's obligation to prepare general purpose financial statements. In addition to the change in legislation the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. New Zealand Oil & Gas Limited is currently reporting under NZ IFRS. Under the new XRB framework management expects that New Zealand Oil & Gas Limited is expected to continue to apply NZ IFRS as applicable for Tier 1 for profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

Basis of measurement

These financial statements have been prepared under the historical cost basis, except that shares held in Pan Pacific Petroleum NL have been stated at fair value.

Functional and presentation currency

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

Use of 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.

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 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 the recoverability of evaluation and exploration and oil and gas assets, the provision for restoration and rehabilitation obligations and recoverability of deferred tax.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to notes 14 and 15)

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. (Refer to note 18)

The key assumption concerning the recoverability of deferred tax assets is the ability of entities in the Group to generate future taxable income. (Refer to note 19)

B) Basis of consolidation

i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. (Refer to note 12)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company. The directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets.

ii) Oil and gas interests

Oil and gas interests are those joint arrangements established by contractual agreement over which the Group has joint control. 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 control commences until the date that 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 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 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.

iii) Group companies

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

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 income statement 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, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through income statement, 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 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 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.

Investments in equity securities

The Group's investments in equity securities where the Group does not have joint control are classified as financial assets that are fair valued through other comprehensive income. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments which comprise cash at bank, short-term deposits and deposits at call with an original maturity of six months or less. Cash also includes the Group's share of cash held in oil and gas interests and restricted cash held under New Zealand Oil & Gas Limited's FPSO Charter Agreement.

Refundable security deposits

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

Performance bonds

Performance bonds include amounts held as a bond under the terms of entering joint studies and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreements and production sharing contracts.

ii) Derivative financial instruments

From time to time the Group may use 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 income statement.

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 income statement as part of foreign currency gains and losses.

iii) Share capital

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.

E) Exploration and evaluation assets

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.

Capitalised exploration and evaluation expenditure are impaired and an impairment loss is recognised in the income statement 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 determining technical feasibility and commercial viability of an area of interest exploration and evaluation assets for the area of interest in question is transferred to development assets. No amortisation is provided for in respect of exploration and evaluation 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.

Expenditure incurred prior to obtaining the rights of tenure in relation to separate areas of interest are expensed in the period in which they are incurred.

F) 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. The carrying value is assessed for impairment each reporting date.

Under/over lift

Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of the petroleum product. The net movement in underlift and overlift is recognised under operating costs in the income statement.

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.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

G] Impairment

The carrying amounts of the Group's assets are reviewed at each balance 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 income statement.

i] 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.

ii] Impairment of 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 assets the method for reviewing for impairment is described in note 2(G)(iii).

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 income statement. 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 post 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.

iii] 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 income statement in the period.

H] Goods and Services Tax (GST)

The income statement 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.

I] Employee benefits

i] Wages and salaries, annual leave and sick leave

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is 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.

ii) Share based payments

The issue date 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.

J) 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) 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 and restoring the affected areas. Any changes in the liability in future periods are added or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the income statement as it occurs. The provision is determined by discounting expected future expenditure at an appropriate risk free interest rate relevant to the currency of the expected expenditure.

K) 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 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 Group's right to receive payment is established and the amount can be reliably measured.

L) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets at fair value through other comprehensive income, foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group's right to receive payment is established.

Finance costs comprise unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of financial assets at fair value through other comprehensive income, and losses on hedging instruments that are recognised in the income statement. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the income statement using the effective interest method.

M) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in statement of comprehensive income.

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 in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

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.

N] Royalties expense

The Group recognises petroleum royalties payable to the New Zealand Government on an accruals basis.

O] 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 granted share options.

P] Net tangible asset backing per share

The Group presents net tangible asset backing per share for its issued shares. Net tangible asset backing per share is calculated by dividing net tangible assets by the number of ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles off net assets as presented at the end of the reporting period.

Q] Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer [CEO] to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is 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.

R] Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of financial assets at fair value through other comprehensive income that are traded on an active market is determined by reference to their quoted bid price at the reporting date.

The fair value of financial assets at fair value through other comprehensive income that are not traded on an active market is determined by the use of a valuation technique.

The fair value of employee partly paid shares is measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility [based on weighted average historic volatility adjusted for changes expected due to publicly available information], life of the instruments, expected dividends, and the risk free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

S] Standards, amendments, and interpretations effective for the year.

The group adopted the following new standards, amendments and interpretations to existing standards that became mandatory for the current financial year. The adoption of these standards has no significant impact on the financial statements.

- NZ IFRS 9, Financial Instruments (2010)
- NZ IFRS 10, Consolidated Financial Statements
- NZ IFRS 11, Joint Arrangements
- NZ IFRS 12, Disclosure of Interests in Other Entities
- NZ IFRS 13, Fair Value Measurement
- NZ IAS 27, Separate Financial Statements (2011)
- NZ IAS 28, Investments in Associates and Joint Ventures (2011)

T] Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 January 2014 but which the Company has not early adopted:

- NZ IFRS 10, Consolidated Financial Statements: (Amendments) (effective from annual periods beginning on or after 1 January 2014)
- NZ IFRS 12, Disclosure of Interests in Other Entities (Amendment) (effective from annual periods beginning on or after 1 January 2014)
- NZ IAS 27, Separate Financial Statements (2011) (Amendment) (effective from annual periods beginning on or after 1 January 2014)
- NZ IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendment) (effective from annual periods beginning on or after 1 January 2014)
- NZ IAS 36, Recoverable Amount Disclosures for Non-Financial Assets (Amendment) (effective from annual periods beginning on or after 1 January 2014)
- NZ IFRIC 21, Levies (effective from annual periods beginning on or after 1 January 2014)

The impact of these accounting standards is currently being assessed.

(U) Changes in accounting policies

There have been no changes in accounting policies during the current year.

3. Segment information

For management purposes, the Group's activities are organised into a number of different segments based on the nature of the venture or investment.

Management monitors operating results and technical data associated with these segments separately for the purposes of making decisions about resource allocation and performance assessment. The financial performance of each segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs, taxes and other corporate activities are managed at a Group level.

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

Oil and gas

Tui area oil fields: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand.

Kupe field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand.

Exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand, Tunisia and in Indonesia.

Segment revenues are allocated based on whether the customer is located in New Zealand or overseas. All segment assets are based in New Zealand with the exception of the investment in Pan Pacific Petroleum NL, which is an Australian listed company, and investment in exploration and evaluation assets in Tunisia and Indonesia.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

2014	Oil & Gas Tui $'000	Oil & Gas Kupe $'000	Oil & Gas Exploration $'000	Other & unallocated $'000	Total $'000
Sales to external customers - NZ	-	43,615	-	-	43,615
Sales to external customers - other countries	27,700	32,307	-	-	60,007
Total sales revenue	27,700	75,922	-	-	103,622
Other income	139	10,720	-	899	11,758
Total revenue and other income	27,839	86,642	-	899	115,380
Segment result	14,752	51,585	(29,529)	(9,328)	27,480
Other reconciling items - net finance income / costs					(2,366)
Profit before income tax					25,114
Income tax and royalties expense					(15,036)
Profit for the year					10,078
Segment assets	64,351	159,450	54,927	7,437	286,165
Unallocated assets					175,083
Total assets					461,248
Included in the segment result:					
Depreciation and amortisation expense	6,249	21,924	-	390	28,563

2013	Oil &Gas Tui $'000	Oil & Gas Kupe $'000	Oil & Gas Exploration $'000	Other and unallocated $'000	Total $'000
Sales to external customers - NZ	-	36,695	-	-	36,695
Sales to external customers - other countries	30,413	32,151	-	-	62,564
Total sales revenue	30,413	68,846	-	-	99,259
Other income	-	9,197	-	447	9,644
Total revenue and other income	30,413	78,043	-	447	108,903
Segment result	18,458	46,079	(15,090)	(9,811)	39,636
Other reconciling items - net finance income / (costs)					5,914
Profit before income tax					45,550
Income tax and royalties expense					(19,605)
Profit for the year					25,945
Segment assets	13,744	184,890	44,480	10,500	253,614
Unallocated assets					192,235
Total assets					445,849
Included in the segment result:					
Depreciation and amortisation expense	3,977	18,357	-	96	22,430

4. Income

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Revenue				
Petroleum sales	**103,622**	99,259	**-**	-
Total revenue	**103,622**	99,259	**-**	-
Other income				
Rental income	**49**	29	**-**	-
Insurance proceeds	**139**	9,000	**-**	-
Royalty income (i)	**10,623**	-	**-**	-
Carbon emission expenditure recovered	**35**	158	**-**	-
Other income	**912**	457	**1,356**	447
Total other income	**11,758**	9,644	**1,356**	447
Total income	**115,380**	108,903	**1,356**	447

(i) During the year New Zealand Oil & Gas Limited reached agreement with Genesis Energy over the payment of overriding royalties from the Kupe oil and gas field, in relation to 20% of Genesis Energy's 31% interest. Origin Energy have a similar overriding royalty agreement, in relation to 10% of their 50% equity share, and negotiations are sufficiently advanced for the revenue to be recognised. The royalty income includes $8.0m in respect of prior years.

5. Operating costs

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Production and sales marketing costs	**22,669**	19,162	**-**	-
Amortisation of production asset	**27,935**	22,334	**-**	-
Carbon emission expenditure	**33**	94	**-**	-
Insurance expenditure	**1,772**	1,628	**-**	-
Movement in inventory	**(6,355)**	526	**-**	-
Movement in stock over/(under) lift	**1,679**	173	**-**	-
Total operating costs	**47,733**	43,917	**-**	-

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

6. Other expenses

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Classification of other expenses by nature				
Audit fees	**140**	146	**138**	136
Directors' fees	**523**	487	**523**	487
Legal fees	**280**	269	**279**	240
Consultants' fees	**1,448**	1,146	**1,448**	1,139
Employee expenses (i)	**3,572**	4,941	**3,572**	4,941
Depreciation	**393**	81	**155**	79
Amortisation of intangible assets	**235**	15	**235**	15
Share based payment expense	**154**	201	**154**	201
IT and software expenses	**673**	315	**673**	315
Donations	**-**	4	**-**	4
Pre-permit expenditure	**235**	-	**-**	-
Registry and stock exchange fees	**404**	360	**404**	360
Other	**2,581**	2,295	**2,557**	2,113
Total other expenses	**10,638**	10,260	**10,138**	10,030

(i) Employee expenses are net of $3.6m (2013: $1.4m) capitalised to exploration and evaluation assets and recharged to operated joint ventures.

Remuneration of auditors

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Auditors' remuneration to KPMG comprises:				
Audit and review of financial statements	**140**	146	**138**	136
Non-audit related services:				
Tax compliance services	**79**	83	**79**	83
Tax advisory services	**155**	292	**155**	292
Other assurance services	**132**	-	**132**	-
	506	521	**504**	511

Other assurance services include providing business advisory services and accounting technical advice.

7. Net finance income/(costs)

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Finance costs				
Interest and finance charges	**(122)**	(1,159)	**(122)**	-
Unwinding of discount on provisions	**(1,911)**	(540)	**-**	-
Exchange losses on foreign currency balances	**(4,533)**	-	**(4,165)**	(288)
Impairment of loans and investments in subsidiaries	**-**	-	**(21,362)**	(13,775)
Total finance costs	**(6,566)**	(1,699)	**(25,649)**	(14,063)
Finance income				
Interest income	**4,200**	4,748	**4,077**	4,481
Exchange gains on foreign currency balances	**-**	365	**-**	-
Reversal of Impairment of loan to Associate-Principal	**-**	2,500	**-**	-
Dividend income	**-**	-	**23,564**	25,151
Total finance income	**4,200**	7,613	**27,641**	29,632
Net finance income/(costs)	**(2,366)**	5,914	**1,992**	15,569

8. Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui area oil fields and Kupe gas and oil field.

Notes to the Consolidated
Financial Statements (continued)

For the year ended 30 June 2014

9. Income tax expense

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
(a) Income tax expense				
Current tax	**(91)**	4,891	**144**	-
Deferred tax (Refer note 19)	**7,401**	5,343	**(2,503)**	(26)
Total income tax expense	**7,310**	10,234	**(2,359)**	(26)
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	**25,114**	45,550	**(6,790)**	5,986
Less: royalties expense	**(7,726)**	(9,371)	**-**	-
Profit/(loss) before income tax expense	**17,388**	36,179	**(6,790)**	5,986
Tax at the New Zealand tax rate of 28%	**4,869**	10,130	**(1,901)**	1,676
Tax effect of amounts which are not deductible/(taxable):				
Non-deductible write off	**1,802**	-	**-**	-
Foreign exchange adjustments	**(534)**	225	**-**	-
Impairment of financial assets/(reversal of impairment)	**-**	(700)	**-**	-
Dividends from wholly owned subsidiaries	**-**	-	**(6,598)**	(7,042)
Impairment of related party loans and investment in subsidiaries	**-**	-	**5,981**	3,857
Other expenses/(income)	**271**	534	**16**	364
	6,408	10,189	**(2,502)**	(1,145)
Underprovision in prior years	**902**	45	**143**	-
Losses utilised	**-**	-	**-**	1,119
Income tax expense	**7,310**	10,234	**(2,359)**	(26)
(c) Imputation credits				
Available balance	**1,165**	2,958	**1,112**	(2,177)

10. Cash and cash equivalents

	Group		Parent	
	2014 $'000	2013 $'000	**2014** $'000	2013 $'000
Cash at bank and in hand	**2,284**	20,310	**2,086**	954
Deposits at call	**15,026**	10,779	**740**	4,255
Short-term deposits	**110,238**	119,600	**10,300**	119,600
Share of oil and gas interests' cash	**7,527**	7,329	**-**	-
Total cash and cash equivalents	**135,075**	158,018	**13,126**	124,809

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $30.0 million denominated in US dollars; NZ dollar equivalent $34.3 million (2013: US dollars $42.3 million; NZ dollar equivalent $54.3 million).

a) Deposits at call and short-term deposits

The deposits at call and short-term deposits are bearing interest rates between 0.6% and 4.4% (2013: 0.1% and 3.9%).

11. Receivables and prepayments

	Group		Parent	
	2014 $'000	2013 $'000	**2014** $'000	2013 $'000
Net trade receivables				
Trade receivables	**21,890**	28,146	**9,398**	1,884
Interest receivable	**396**	362	**361**	362
Share of oil and gas interests' receivables	**3,848**	713	**-**	-
	26,134	29,221	**9,759**	2,246
Advances to related parties	**-**	-	**125,550**	48,717
Other				
Prepayments	**817**	821	**108**	117
Stock under lift receivable	**-**	118	**-**	-
Other	**151**	672	**151**	90
Total receivables and prepayments	**27,102**	30,832	**135,568**	51,170

Trade receivables denominated in currencies other than the presentation currency comprise $2.9 million denominated in US dollars; NZ dollar equivalent 3.3 million (2013: $11.4 million denominated in US dollars; NZ dollar equivalent $14.6 million).

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

12. Investments in subsidiaries

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

		Equity Holding	
Name of entity	Country of incorporation	2014 %	2013 %
ANZ Resources Pty Limited	Australia	**100**	100
Australia and New Zealand Petroleum Limited	New Zealand	**100**	100
Kupe Royalties Limited	New Zealand	**100**	100
National Petroleum Limited	New Zealand	**100**	100
Nephrite Enterprises Limited	New Zealand	**100**	100
NZOG 54867 Limited	New Zealand	**100**	100
NZOG 38483 Limited	New Zealand	**100**	100
NZOG 2013 O Limited *	New Zealand	**100**	100
NZOG Asia Pty Limited	Australia	**100**	100
NZOG Bohorok Pty Limited	Australia	**100**	100
NZOG 54857 Limited	New Zealand	**100**	100
NZOG Developments Limited	New Zealand	**100**	100
NZOG Devon Limited	New Zealand	**100**	100
NZOG 2013 T Limited **	New Zealand	**100**	100
NZOG Energy Limited	New Zealand	**100**	100
NZOG Palmerah Baru Pty Limited ***	Australia	**100**	100
NZOG Offshore Limited	New Zealand	**100**	100
NZOG Pacific Holdings Pty Limited	Australia	**100**	100
NZOG Pacific Limited	New Zealand	**100**	100
NZOG Services Limited	New Zealand	**100**	100
NZOG Taranaki Limited	New Zealand	**100**	100
NZOG Tunisia Pty Limited	Australia	**100**	100
Oil Holdings Limited	New Zealand	**100**	100
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90**	90
Petroleum Equities Limited	New Zealand	**100**	100
Petroleum Resources Limited	New Zealand	**100**	100
Resource Equities Limited	New Zealand	**100**	100
Stewart Petroleum Co Limited	New Zealand	**100**	100
New Zealand Oil & Gas Employee Benefit Trust	New Zealand	**-**	-

* On 20 September 2013, NZOG 38494 Limited was renamed NZOG 2013 O Limited.

** On 20 September 2013, NZOG Egmont Limited was renamed NZOG 2013 T Limited.

*** On 15 October 2013, NZOG Hammamet Pty Limited was renamed NZOG Palmerah Baru Pty Limited.

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 industry.

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

United States dollar functional currency companies:

- Stewart Petroleum Co Limited
- NZOG Tunisia Pty Limited
- NZOG Asia Pty Limited
- NZOG Palmerah Baru Pty Limited
- NZOG Bohorok Pty Ltd
- NZOG Pacific Holding Pty Limited
- Pacific Oil & Gas (North Sumatera) Limited

Australian dollar functional currency company:

- ANZ Resources Pty Limited

The following wholly owned subsidiaries were incorporated in Australia after 30 June 2014:

- NZOG MNK Kisaran Pty Limited (incorporated 3 July 2014)
- NZOG MNK Bohorok Pty Limited (incorporated 4 July 2014)
- NZOG MNK Palmerah Pty Limited (incorporated 4 July 2014)

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

13. Oil and gas interests

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

			Interests held by the Group	
Name	**Country**	**Type**	**2014**	**2013**
PML 38146 - Kupe	New Zealand	Mining Licence	15.0%	15.0%
PMP 38158 - Tui (i)	New Zealand	Mining Permit	27.5%	12.5%
PEP 51311 - Kakapo (ii)	New Zealand	Exploration Permit	-%	100.0%
PEP 53473 - Takapou	New Zealand	Exploration Permit	50.0%	50.0%
PEP 54857 - Waru	New Zealand	Exploration Permit	100.0%	100.0%
PEP 52717 - Clipper	New Zealand	Exploration Permit	50.0%	50.0%
PEP 51906 - Matuku	New Zealand	Exploration Permit	12.5%	12.5%
PEP 54867 - Manaia (iii)	New Zealand	Exploration Permit	-%	40.0%
PEP 52181 - Kaheru	New Zealand	Exploration Permit	35.0%	35.0%
PEP 52593 - Taranga	New Zealand	Exploration Permit	50.0%	50.0%
PEP 51558 - Kanuka (iv)	New Zealand	Exploration Permit	-%	50.0%
PEP 55792 - Galleon	New Zealand	Exploration Permit	100.0%	-%
PEP 55793 - Vulcan	New Zealand	Exploration Permit	30.0%	-%
PEP 55794 - Toroa	New Zealand	Exploration Permit	30.0%	-%
Diodore (v)	Tunisia	Prospecting Permit	100.0%	100.0%
Kisaran PSC	Indonesia	Production Sharing Contract	22.5%	22.5%
Bohorok PSC	Indonesia	Production Sharing Contract	45.0%	45.0%
Palmerah Baru PSC	Indonesia	Production Sharing Contract	36.0%	-%
MNK Kisaran PSC (vi)	Indonesia	Production Sharing Contract	11.3%	-%
Cosmos (vii)	Tunisia	Concession	-%	40.0%

(i) New Zealand Oil & Gas Limited acquired a further 15.0% interest in PMP 38158 (Tui) with an effective date of 1 October 2013.

(ii) PEP 51311 (Kakapo) was relinquished to the Crown on 29 July 2013.

(iii) PEP 54867 (Manaia) was relinquished to the Crown on 30 June 2014.

(iv) PEP 51558 (Kanuka) was relinquished to the Crown on 2 December 2013.

(v) New Zealand Oil & Gas Limited made a decision to withdraw from this concession claim. The Group has fully impaired the exploration and evaluation asset in Diodore at balance date.

(vi) The contract for MNK Kisaran PSC was awarded 19 June 2014.

(vii) NZOG reassigned its interest to Storm Ventures International in May 2013, which was approved by the Tunisian Government on 11 October 2013.

	Group	
	2014 $'000	2013 $'000
Share of oil and gas interests' assets and liabilities		
Current assets		
Cash and cash equivalents	**7,527**	7,329
Trade receivables *	**3,848**	713
Inventory	**581**	421
Non-current assets		
Petroleum interests **	**426,480**	369,383
Total assets	**438,436**	377,846
Current liabilities		
Short-Term Liabilities	**17,410**	8,300
Total liabilities	**17,410**	8,300
Net assets	**421,026**	369,546
Share of oil and gas interests' revenue, expenses and results		
Revenues *	**218**	788
Expenses	**(19,410)**	(22,340)
Profit before income tax	**(19,192)**	(21,552)

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

** Prior to amortisation of production assets and borrowings.

14. Exploration and evaluation assets

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Opening balance	**44,480**	14,893	**-**	-
Expenditure capitalised	**81,292**	43,792	**60**	-
Revaluation of USD exploration and evaluation assets	**(4,393)**	885	**-**	-
Expenditure written off *	**(29,529)**	(15,090)	**-**	-
Transfer of exploration and evaluation assets to development	**(36,923)**	-	**-**	-
At end of year	**54,927**	44,480	**60**	-

* The expenditure written off during the year relates to the following permits (refer to Note 13):

- PMP 38518 (Tui) Oi 1 and Oi 2 exploration wells
- PEP 51311 (Kakapo)
- PEP 54867 (Manaia)
- PEP 51558 (Kanuka)
- PEP 51906 (Matuku) - Matuku 1 exploration well
- Diodore

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

15. Oil and gas assets

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Opening balance	**198,634**	218,537	**-**	-
Expenditure capitalised	**8,796**	5,176	**-**	-
Disposal	**(857)**	-	**-**	-
Amortisation for the year	**(27,935)**	(22,334)	**-**	-
Depreciation for the year	**(238)**	-	**-**	-
Revaluation of USD production assets	**(2,759)**	125	**-**	-
Abandonment provision	**11,237**	(2,870)	**-**	-
Transfer from exploration and evaluation assets	**36,923**	-	**-**	-
Closing balance	**223,801**	198,634	**-**	-

Includes capitalised borrowing costs of $7.6 million at 30 June 2014 (2013: $8.4 million).

16. Other financial assets

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Pan Pacific Petroleum NL - Shares:				
Investment assets (fair value through other comprehensive income)	**7,437**	10,500	**-**	-
	7,437	10,500	**-**	-
Other				
Investment in subsidiaries (note 12)	**-**	-	**63,695**	56,765
Performance bonds	**2,362**	1,372	**1,505**	407
Refundable security deposits	**43**	43	**-**	-
	2,405	1,415	**65,200**	57,172
Total other financial assets	**9,842**	11,915	**65,200**	57,172

a) Investment assets

Shares held in Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is measured at fair value at balance date of $7.4 million and is classified as an investment asset at fair value. The Group has designated the investment asset as fair value with movements through other comprehensive income as this best matches the Group's holding intention for this investment. All gains and losses being recognised in other comprehensive income.

b) Performance bonds

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreement and production sharing contracts.

17. Payables

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Trade payables	**543**	2,180	**541**	558
Stock overlift lift payable	**1,906**	-	**-**	-
Royalties payable	**3,179**	5,941	**-**	-
Share of oil and gas interests' payables	**17,410**	8,300	**-**	-
Other payables	**9,311**	2,134	**3,066**	1,102
Total payables	**32,349**	18,555	**3,607**	1,660

Payables denominated in currencies other than the presentation currency comprise $3.7 million of payables denominated in US dollars; NZ dollar equivalent $4.2 million. (2013: US dollars $2.8 million; NZ dollar equivalent $3.7 million)

18. Restoration and rehabilitation provision

Provisions for restoration and rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefit will be required to settle the obligation. The estimated future obligations include the costs of removing facilities abandoning wells and restoring the affected area. Due to the long term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred.

The provision is determined by discounting expected future expenditure at an appropriate risk free rate relevant to the currency of the expected expenditure. Changes in estimates of the timing and amount of expected future expenditure will impact on the provision in future.

In the current year the risk free rate used to determine the provision for US Dollars was 2.53%.

	2014 $'000	2013 $'000
Carrying amount at start of year	**30,197**	32,392
Additional/(reduction) in provisions recognised	**11,237**	(2,870)
Revaluation of USD provisions	**(2,172)**	135
Unwinding of discount	**1,911**	540
Carrying amount at end of year	**41,173**	30,197

NZOG acquired a further 15% interest in the Tui area oil fields and successfully drilled an additional well, Pateke 4-H, which resulted in additional provision being recognised.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

19. Deferred tax assets and liabilities

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
The balance comprises temporary differences attributable to:				
Non-deductible provisions	**11,528**	8,455	**-**	-
Tax losses	**5,975**	-	**-**	-
Other items	**162**	97	**2,601**	98
	17,665	8,552	**2,601**	98
Other				
Exploration assets	**(9,685)**	(5,649)	**-**	-
Oil and gas assets	**(50,361)**	(37,641)	**-**	-
Capitalised borrowing costs	**(2,126)**	(2,413)	**-**	-
Sub-total other	**(62,172)**	(45,703)	**-**	-
Net deferred tax liabilities	**(44,507)**	(37,151)	**2,601**	98
Movements:				
Net deferred tax asset/(liability) at 1 July	**(37,151)**	(31,773)	**98**	72
Credited to the income statement (note 9)	**(7,401)**	(5,343)	**2,503**	26
Foreign exchange differences	**45**	(35)	**-**	-
Closing balance at 30 June	**(44,507)**	(37,151)	**2,601**	98

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.

20. Contributed equity of the Group and Parent

a) Share capital

	2014 Number of Shares	2013 Number of Shares	2014 $'000	2013 $'000
Ordinary shares				
Fully paid shares	**415,996**	407,252	**377,583**	370,641
Partly paid shares	**7,821**	7,005	**79**	70
Total share capital	**423,817**	414,257	**377,662**	370,711

b) Movements in ordinary share capital

	2014 Number of Shares	2013 Number of Shares	2014 $'000	2013 $'000
Opening	**414,257**	402,308	**370,711**	358,584
Issues of ordinary shares during the year				
Shares issued	**8,123**	10,999	**6,938**	12,117
Partly paid shares issued	**1,437**	950	**13**	10
Closing balance of ordinary shares issued	**423,817**	414,257	**377,662**	370,711

Shares issued represent the shares issued under the Dividend Reinvestment Plan. A further 0.6 million shares were transferred from partly paid shares to fully paid shares during the year (2013: 3.5 million shares). The partly paid shares are sold on market with the proceeds included in the shares issued amount.

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

Partly paid shares issued by the company to participants of the employee share ownership plan (ESOP) are paid by the participant to NZ$0.01 per share on issue. 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 26.

Notes to the Consolidated
Financial Statements (continued)

For the year ended 30 June 2014

21. Reserves

a) Reserves

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Revaluation reserve	**(6,882)**	(4,791)	**-**	-
Share based payments reserve	**54**	220	**54**	220
Foreign currency translation reserve	**(18,738)**	(11,968)	**-**	-
Share revaluation reserve	**-**	-	**6,465**	6,465
Total reserves	**(25,566)**	(16,539)	**6,519**	6,685
Movements:				
Revaluation reserve				
Balance 1 July	**(4,791)**	(4,925)	**-**	-
Fair value gain/(loss) through other comprehensive income	**(2,091)**	134	**-**	-
Balance 30 June	**(6,882)**	(4,791)	**-**	-
Share based payments reserve				
Balance 1 July	**220**	345	**220**	345
Share based payment expense for the year	**154**	201	**154**	201
Transfer of expired share based payments during the year	**(320)**	(326)	**(320)**	(326)
Balance 30 June	**54**	220	**54**	220
Foreign currency translation reserve				
Balance 1 July	**(11,968)**	(12,663)	**-**	-
Foreign currency translation differences for the year	**(6,770)**	695	**-**	-
Balance 30 June	**(18,738)**	(11,968)	**-**	-

b) Nature and purpose of reserves

i) Revaluation reserve

This reserve relates to the revaluation of Pan Pacific Petroleum NL investment. The gains and losses arising from changes in fair value of the investment are recognised through the statement of comprehensive income and are not transferred to the income statement on disposal, although they may be reclassified within equity.

ii) Foreign currency translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. Subsidiary companies with a functional currency different to the Group are outlined in note 12. The reserve is recognised in the income statement when the net investment is disposed of.

iii) Share revaluation reserve

This reserve relates to the circumstances where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the income statement when the wholly owned subsidiary is disposed of.

22. Earnings per share

a) Basic earnings per share

	Group	
	2014 Cents	**2013 Cents**
Basic earnings per share	**2.4**	6.5

b) Reconciliations of earnings used in calculating earnings per share

	Group	
	2014 $'000	**2013** $'000
Profit/(loss) for the year	**10,078**	25,945

c) Weighted average number of shares used as the denominator

	Group	
	2014 Number 000s	**2013 Number** 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	**411,831**	401,695

Basic earnings per share is equal to the diluted earnings per share as there is no instrument with dilutive potential.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

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

	Group		Parent	
	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Profit/(loss) for the year	**10,078**	25,945	**(4,431)**	6,012
Depreciation and amortisation	**28,563**	22,334	**390**	93
Deferred tax	**7,401**	5,343	**(2,503)**	(26)
Reversal of impairment of loan	**-**	(2,500)	**-**	-
Exploration expenditure included in investing activities	**30,036**	16,105	**-**	-
Impairment of related party loans and investment in subsidiaries	**-**	-	**21,362**	13,775
Share based payment expense	**154**	201	**154**	201
Net foreign exchange differences	**4,438**	(365)	**4,165**	288
Dividend income	**-**	-	**(23,564)**	(25,151)
Other	**1,763**	781	**(65)**	91
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**5,526**	(12,889)	**(1,785)**	(6,477)
Increase/(decrease) in trade creditors	**8,998**	(699)	**2,732**	3,317
Increase (decrease) in inventory	**(5,490)**	-	**-**	-
Increase/(decrease) in tax payable	**(3,514)**	-	**3,919**	-
Net cash inflow from operating activities	**87,953**	54,256	**374**	(7,877)

24. Financial risk management

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

a) Market risk

i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, performance bonds, oil sales and capital commitments that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 10, 11 and 17.

ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests.

iii) Concentrations of interest rate exposure

The Group's main interest rate risk arises from short-term deposits.

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 arrangement.

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.

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:

GROUP	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
30 June 2014						
Payables	32,349	-	-	-	-	32,349
Total non-derivative liabilities	32,349	-	-	-	-	32,349
30 June 2013						
Payables	18,555	-	-	-	-	18,555
Total non-derivative liabilities	18,555	-	-	-	-	18,555

At 30 June 2014 the Group had no derivatives to settle (2013: nil).

PARENT	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
30 June 2014						
Payables	3,607	-	-	-	-	3,607
Total non-derivative liabilities	3,607	-	-	-	-	3,607
30 June 2013						
Payables	1,660	-	-	-	-	1,660
Total non-derivative liabilities	1,660	-	-	-	-	1,660

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

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 company established a Dividend Reinvestment Plan which applies to dividends declared after 29 July 2009. The Group has an adequate capital base and significant cash reserves from which it can pursue its growth aspirations.

e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, equity securities and currency risks. The Group's exposure to these risks is described in note 24(a).

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

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at 30 June 2014 would be to decrease the Group profit before tax by $1.6 million and decrease the foreign currency translation reserve in equity by $2.9 million (2013: $3.3 million decrease on profit before tax and $0.6 million decrease in the foreign currency translation reserve).

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by $1.1 million (2013: $1.6 million increase), based on maintaining current cash balances.

The impact of an increase in the value of equity securities held by the Group at balance date, which are categorised as fair value through other comprehensive income, by 5% would increase the revaluation reserve in equity by $0.4 million (2013: $0.5 million increase).

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) Fair value estimation

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets that are measured at fair value. The parent has no assets or liabilities that are measured at fair value.

Group **At 30 June 2014**	**Level 1** $'000	**Level 2** $'000	**Level 3** $'000	**Total balance** $'000
Assets				
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**7,437**	-	-	7,437
Total assets measured at fair value	**7,437**	-	-	7,437

Group **At 30 June 2013**	**Level 1** $'000	**Level 2** $'000	**Level 3** $'000	**Total balance** $'000
Assets				
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**10,500**	-	-	10,500
Total assets measured at fair value	**10,500**	-	-	10,500

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily NZX 50 equity investments classified as fair value through comprehensive income.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in fair value of level 3 instruments:

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For the year ended 30 June 2014

h] Financial instruments by category

Group	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2014			
Assets			
Cash and cash equivalents	-	135,075	135,075
Trade and other receivables	-	26,134	26,134
Other financial assets	7,437	2,405	9,842
	7,437	163,614	171,051
Liabilities			
Payables	-	32,349	32,349
Borrowings	-	776	776
	-	33,125	33,125

Group	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2013			
Assets			
Cash and cash equivalents	-	158,018	158,018
Trade and other receivables	-	30,013	30,013
Other financial assets	10,500	1,415	11,915
	10,500	189,446	199,946
Liabilities			
Payables	-	18,555	18,555
Borrowings	-	197	197
	-	18,752	18,752

All Parent financial instruments are held at amortised cost.

25. Related party transactions

a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: P W Griffiths; R J Finlay; P G Foley; A T N Knight; A R Radford (resigned 29 October 2013); R D Ritchie (appointed 29 October 2013); D R Scoffham and M Tume.

The Directors named above received no remuneration or other benefits from the subsidiary companies directly during the year, as their remuneration from New Zealand Oil & Gas Limited covers all payments received for services.

c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2014 and 30 June 2013 is set out below. The key management personnel are all the directors (executive and non-executive) and remaining management of the Company.

	Short-term benefits $'000	Post employment benefits $'000	Other long term benefits $'000	Termination benefits $'000	Share based payments $'000	Total $'000
2014						
Management	**2,148**	**-**	**-**	**-**	**39**	**2,187**
Directors	**1,152**	**-**	**-**	**-**	**73**	**1,225**
	3,300	**-**	**-**	**-**	**112**	**3,412**
2013						
Management	1,955	-	-	-	50	2,005
Directors	990	-	-	-	119	1,109
	2,945	-	-	-	169	3,114

d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 26.

Mr A R Radford is a director of and indirectly holds shares in Pan Pacific Petroleum NL (PPP).

Mr P G Foley is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison is a legal services provider to the Group on normal commercial terms and conditions.

Mr P W Griffiths is a director and shareholder of NZ Diving & Salvage Limited. NZ Diving & Salvage Limited provided site survey and coring services to a Joint Venture holding the permit PEP52181 (Kaheru), of which NZOG is the Operator. The service contract was awarded to NZ Diving & Salvage following a robust tender process and approval by the Joint Venture parties. Amounts were billed based on commercial rates and were due and payable under normal payment terms.

Notes to the Consolidated Financial Statements (continued)

For the year ended 30 June 2014

e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in notes 12, 13, 14 and 16 as subsidiaries and oil and gas interests.

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

There have been no material transactions with related parties during the year.

26. Share based payments

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non-executive Director) of the Company to whom an offer to participate is made by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee, in its discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

1. Restriction periods

Each partly paid share is issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This is usually 2 years. There is 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").

2. Issue price

The issue price of each partly paid share is set at the time the offer is made to the participant and is currently set at the lesser of:

- a 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
- the last sale price of the Company'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 Company'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.

Participants are required to pay $0.01 per share at the time of issue.

3. Rights

The rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Company. The partly paid shares rank equally with the ordinary shares in the Company. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Company, 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.

Issued within Year Ended	Grant Date (Last in Year)	Final Date (Last in Year)	Average Exercise Price	Balance at start of Year 000s	Issued during the Year 000s	Sold during the Year 000s	Forfeited during the Year 000s	Balance at end of the Year 000s	Fully vested at end of Year 000s
30/06/2010	Jan-10	Nov-14	$1.54	850.0	-	-	(150.0)	700.0	700.0
30/06/2011	Jan-11	Nov-15	$1.64	1,105.0	-	(10.0)	(145.0)	950.0	800.0
30/06/2012	May-12	Apr-16	$0.95	3,900.0	-	-	-	3,900.0	3,900.0
30/06/2013	May-13	May-18	$1.12	950.0	-	-	-	950.0	-
30/06/2014	Nov-13	Aug-18	$1.01	-	1,437.0	-	(116.0)	1,321.0	-
				6,805.0	1,437.0	(10.0)	(411.0)	7,821.0	5,400.0
Weighted average exercise price				$1.20	$1.01	$2.04	$1.42	$1.16	$1.17

Share based payments are 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, the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. The assessed fair value (for NZ IFRS 2 purposes) at issue date of partly paid share issued during the year ended 30 June 2014 was 4 cents per share (30 June 2013 was 6 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2014, in addition to the issue price, issue date and final date as summarised in the above table, include:

a) shares are paid to $0.01 on issue

b) partly paid shares have a five year life and are exercisable after two years from the issue date

c) market price on issue date: $0.86

d) expected price volatility of the company's shares: 25%

e) expected gross dividend per share: 9.7%

f) risk free interest rate on the issue date: 2.63%

The expected price volatility is based on the historic volatility.

Notes to the Consolidated
Financial Statements (continued)

For the year ended 30 June 2014

27. Commitments and contingent assets and liabilities

a) Exploration expenditure commitments

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

b) Operating leases and commitments

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

	Group		Parent	
	2014 $'000	**2013** $'000	**2014** $'000	**2013** $'000
Within one year	**354**	354	**354**	354
Later than one year and not later than five years	**677**	1,031	**677**	1,031
	1,031	1,385	**1,031**	1,385

During the year ended 30 June 2014 $354,000 was recognised as an expense in the income statement in respect of operating leases (2013: $363,000).

Production commitments

The Company is committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US$13.7 million.

(c) Contingent liabilities

As at 30 June 2014 the Company had no material contingent liabilities (2013:$Nil).

Independent Auditor's Report

To the shareholders of New Zealand Oil & Gas Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of New Zealand Oil & Gas Limited ("the company") and the group, comprising the company and its subsidiaries, on pages **24 to 62**. The financial statements comprise the statements of financial position as at 30 June 2014, the income statement and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group financial statements that are free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group's preparation of the financial statements that give a true and fair view of the matters to which they relate in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company and group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion the financial statements on pages **24 to 62**:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Oil & Gas Limited as far as appears from our examination of those records.

KPMG

2 September 2014
Wellington

Corporate Governance Statement

New Zealand Oil & Gas Limited (the "Company") is a limited liability company registered under the New Zealand Companies Act 1993. The Company is listed and its shares quoted on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX) under the code "NZO". This statement sets out the main corporate governance practices adopted by the Company. Unless otherwise stated, the Company's governance practices are considered to comply with the Corporate Governance guidelines issued by the NZX and ASX.

Board of Directors

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

The number of Directors is specified in the constitution as a minimum of three and up to a maximum of seven. At least two Directors must be persons ordinarily resident in New Zealand. Each year one-third of the Directors, other than the Managing Director, must retire by rotation. If eligible, each retiring Director may offer themselves for re-election.

Details of current Directors are set out in the table below:

Director	Appointed	Position	Expertise	Experience
Mr P W Griffiths BSc (Hons)	December 2009	Chairman (Ind)	Energy operations	BSc (Hons), Victoria University. 21 years with BP, 11 years in offshore oil & gas field operations in Australasia, Malaysia, UK; and 10 years Managing Director of BP NZ. Chairman of Z Energy, deputy chair of the Civil Aviation Authority, and on the Board of Marsden Maritime Holdings, and New Zealand Diving and Salvage Ltd.
Mr R J Finlay B Com CA	February 2012	(Ind)	Finance	B Com, Otago University. 30 years experience in financial services industry, 20 of which specialising in the global natural resource sectors. Other Directorships: Tandou Limited, Rural Equities Limited, Mundane Asset Management and Moeraki Limited. Memberships: NZ Institute of Chartered Accountants and NZ Institute of Directors.

Director	Appointed	Position	Expertise	Experience
Mr P G Foley BCA, LLB	July 2000	(Ind)	Legal and finance	LLB and BCA, Victoria University. Partner, Minter Ellison Rudd Watts. Extensive corporate/commercial experience in financial services, manufacturing and energy fields - with significant involvement with major petroleum exploration & production companies. Other Directorships: Deputy Chair of the National Provident Fund and Chair of Grosvenor Financial Services Group.
Mr A T N Knight BMS (Hons) CA	January 2008	CEO & MD	Energy operations and finance	BMS (Hons), Waikato University. Executive management roles: Vector, NGC. Senior roles in NZ & Australia: The Australian Gas Light Company, Fletcher Challenge Energy, Coopers & Lybrand. Other Directorships: Petroleum Exploration and Production Association of New Zealand, Gas Industry Company Ltd and Sea Group Holding Ltd. Member: NZ Institute of Chartered Accountants.
Mr R Ritchie BSc	October 2013	(Ind)	Energy operations and HSSE	BSc, University of Tulsa. 36 years of experience as a line manager and a Health, Safety, Security and Environment executive in the oil and gas industry – including being the Corporate Senior Vice President of HSSE at OMV based in Vienna. Other Directorships: Sparc (Aust) Pty Ltd. Memberships: Society of Petroleum Engineers.
Mr D R Scoffham MA, MSc	June 2003	(Ind)	Worldwide oil & gas exploration	MA Physics, Christ Church Oxford University. MSc Geophysics, Imperial College London. 40+ years experience in the upstream oil and gas industry: Exploration management at Shell International and UK independent Enterprise Oil plc.
Mr M Tume BBS, Dip Banking Studies	February 2012	(Ind)	Finance	BBS and Dip Banking Studies, Massey University. Hunter Fellowship recipient, Victoria University. 25+ years infrastructure and finance: senior roles in investment banking, capital markets, asset and liability management, and risk control. Other Directorships: New Zealand Refining Company, Infratil (and related subsidiaries), and the Guardians of New Zealand Superannuation Fund.

Independent Directors

A majority of the Board are independent Directors. The Board has determined in terms of the NZX and ASX Listing Rules that as at 30 June 2014, Mr R J Finlay, Mr P G Foley, Mr P W Griffiths, Mr R Ritchie, Mr D R Scoffham and Mr M Tume are independent Directors. Mr A T N Knight is not an independent Director because of his executive role.

Board Proceedings

The Board meets on a formal scheduled basis every two months, and holds other meetings as required. The Chairman and the Managing Director establish the agenda for each Board meeting. As a regular item for each Board meeting, and for every month the Board doesn't meet, the Managing Director prepares an Operations Report which includes: A Health, Safety and Environment report, a summary of the Company's exploration, development and production operations and assets, new venture projects and opportunities, human resources, stakeholder engagement, together with key financial and other reports. Key strategic issues and opportunities are also presented to the Board by management as part of each meeting

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

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

The Board is balanced in its composition with each current Director bringing a range of complementary skills and experience to the Company, particularly in relation to energy/resources management and operations, and finance. The board has a diverse range of skills, backgrounds, ages, and perspectives.

Board Committees

The Board has four formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, the Nominations and Remuneration Committee, the HSE and Operational Risk Committee and the Community Engagement Committee. Each committee has a written charter setting out its roles and responsibilities, which is available from the Company's website at www.nzog.com/investor-information/corporate-governance.

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

As at 30 June 2014, the members of the Audit Committee were Mr Tume (Chairman), Mr Finlay and Mr Foley. The Committee is to be composed of three non-executive members of the Board with all members being independent directors. The Chairman of the Board is not to also be the Chairman of the Audit Committee. At least one member is to have an accounting or financial background. The Board has determined that Mr Foley, Mr Finlay and Mr Tume each have the requisite financial background for this requirement. All members have been determined independent directors and Mr Tume, as Chairman of the Committee, is not the Chairman of the Board.

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

The Committee composition is to be three non-executive Directors, with a majority being independent. The members of the Nomination and Remuneration Committee as at 30 June 2014 were Mr Finlay (Chairman), Mr Ritchie and Mr Scoffham (all of whom are independent directors). The Committee is required to meet at least twice a year in June and in December and may invite the executive director or management to participate.

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

The HSE and Operational Risk Committee's role is to advise and support the Board in meeting its responsibilities in relation to HSE and Operational Risk matters arising out of the activities and operations of the Group.

As at 30 June 2014, the members of the HSE and Operational Risk Committee were Mr Ritchie (Chairman), Mr Griffiths, Mr Foley and Mr Knight. The Committee is to meet at least four times a year and may call upon, and have access to, resources for additional information or advice including external consultants.

The Community Engagement Committee's role is to advise and support the Board in meeting its responsibilities in relation to community engagement matters arising out of the activities and operations of the Company Group. The Committee composition is to be at least three Directors, the Chairman is to be appointed by the Board and is to be a non-executive Director although interim arrangements may differ from time to time. The Committee is to meet as required but at least once a year. As at 30 June 2014, the Committee members were Mr Griffiths (Chairman), Mr Knight and Mr Ritchie.

Meeting Attendance as at 30 June 2014:

Director	Board Meeting	Audit Committee	Nomination and Remuneration Committee	HSE & Operational Risk Committee	Community Engagement Committee
Mr P W Griffiths	9/9			4/4	2/2
Mr R Finlay	9/9	3/3	3/3		
Mr P G Foley	8/9	3/3		4/4	
Mr A T N Knight	9/9			4/4	2/2
Mr R Ritchie*	5/5		2/2	4/4	2/2
Mr D R Scoffham	8/9		3/3		
Mr M Tume	8/9	3/3			
Mr A R Radford**	4/4		1/1		

*Mr Ritchie was appointed as a director of the Company on 29 October 2013.

**Mr Radford ceased to be a director of the Company on 29 October 2013.

Board Performance And Evaluation

The Board has a policy of and is responsible for conducting an annual review of its performance, the performance of its committees, and the performance of individual Directors. The Board annually reviews its own operations and the operations of the committees by way of a questionnaire submitted to the directors. Responses are collated and then reviewed and discussed by the full Board. The Chairman then undertakes an overall review on the outcomes and produces a written report which is reviewed by the full Board. Individual Director performance is addressed by one on one review with the Chairman of the Board. Evaluations in accordance with these processes were undertaken during the reporting period, covering Board, Board committees and Director performance. The review will be carried out with external assistance every second year.

Responsibilities of the Board

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

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

While the Board has overall and final responsibility for the business of the Company, it has delegated substantial responsibility for the conduct of the Company's business and policy implementation to the Chief Executive and his management team.

Board approved policies and procedures are in place to set parameters for the delegated responsibilities, including:

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

- Delegated Authorities Manual
- Remuneration and Performance Appraisal Policy
- Oil Hedging Policy
- Funds Investment Policy
- Foreign Exchange: Transactions and Hedging Policy
- ETS Obligations and Carbon Liability: Transactions Policy
- Email and Internet Use Policy
- Anti-Harassment Policy
- Drugs and Alcohol Policy

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

Health and Safety Policy

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

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

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

Environment Policy

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

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

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

Code of Business Conduct and Ethics

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

Company representatives are required to;

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

The Code addresses in detail issues such as: conflicts of interest and corporate opportunities; protection and proper use of Company assets; confidential and proprietary information; intellectual property; competition and fair dealing; business entertainment and gifts; insider trading or tipping; and reporting of Code violations.

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

Communications and Market Disclosure Policy

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

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

The Board is to be provided with a monthly report by management which monitors and evaluates media reporting and investor sentiment relating to the Company and its management and directors. The Board is responsible for, by way of example, monitoring commitments and continuous disclosure obligations and initiating action as warranted to ensure reporting is fair and reasonable. The Audit Committee is responsible for monitoring compliance with corporate governance guidelines of the NZX and ASX. The Chief Executive is accountable for the release of information.

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

Shareholders and interested parties can subscribe via the website to receive notice of the Company's market announcements by email. The Company issues shareholder, annual, interim, and quarterly reports, which security holders can elect to receive in paper or electronic format. These documents are also posted on the Company's website in a clearly marked Corporate Governance section which is located within the investor information section.

Securities Trading Policies

The Company's Securities Trading Policies set out procedures as to when and how an employee, dedicated contractor or Director can deal in Company securities. These policies are consistent with the Securities Markets Act 1998 and its insider trading procedures, and comply with the NZX and ASX rules. The Board ensures that these policies are up to date and compliant at all times with any changes to the law and to NZX and ASX listing rules.

The Securities Trading Policies are available on the Company's website at www.nzog.com/investor-information/corporate-governance.

Diversity Policy

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

The Board establishes measurable objectives for achieving gender diversity, and may establish measurable objectives for other aspects of diversity, and will assess annually both the set objectives and the progress in achieving them. On an annual basis, the Chief Executive is to make an assessment of success in achieving the set objectives and report to the Board with recommendations as appropriate. This process is supported by a function of and recommendations from the Nominations and Remuneration Committee.

The Board set the following measurable objectives in the reporting period:

2014 Measurable Objectives	Progress
1. Review of the Company's recruitment process to identify if diversity bias is occurring.	Review undertaken.
2. Consideration of diversity objectives within the strategy for community engagement	Completed.
3. Having identified the various teams and position levels within those teams within the Company, identify whether it is appropriate to set any goals in the current financial year to increase representation of women in any particular area and/or position levels within the Company.	Process undertaken.

With respect to the provisions of the Diversity Policy, the Board has determined that the Company has complied with the Policy.

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

The following table shows the number of men and women across the organisation (excluding contractors) as at 30 June 2014 and compares that to the numbers as at 30 June 2013.

30 June 2014	Total	No. of Men	% Men	No. of Women	% Women
Board*	7	7	100%	0	0%
Senior Executives	6	6	100%	0	0%
Other Employees	18	9	50%	9	50%

30 June 2013	Total	No. of Men	% Men	No. of Women	% Women
Board*	7	7	100%	0	0%
Senior Executives	6	6	100%	0	0%
Other Employees	15	8	53%	7	47%

*Includes the Managing Director/Chief Executive

Directors' Interests Policy

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

Protected Disclosures (Whistleblower) Policy

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

Delegated Authorities Manual

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

Anti-Harassment Policy

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

Remuneration and Performance Appraisal Policy

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

At the 2008 Company Annual Meeting, shareholders approved a resolution that Director's fees be set at a maximum of $600,000 per annum, being the combined total for all non-executive Directors. There has been no increase in the fee level since 2008. Certain Directors are also participants in the Company's Employee Share Ownership Plan as detailed in this Annual Report, but Directors otherwise do not receive any performance based remuneration.

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

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

A performance evaluation of senior executives is performed annually by the Chief Executive and reviewed by the Committee at the end of each financial year. Evaluations and reviews in accordance with this process were undertaken in the reporting period.

Drug and Alcohol Policy

During the reporting year, the Company adopted a Drug and Alcohol Policy. Any person impaired by the use of alcohol, controlled substances or drugs is prohibited from entering the Company's facilities, engaging in Company business or operating Company equipment.

Recognising and Managing Risk

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

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

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

Responsibility for identifying, documenting and managing risks and opportunities is delegated to the appropriate level of management. The Chief Executive is responsible for such things as integrating risk management into core business processes, managing the Company's corporate strategic risks and opportunities and regularly reviewing the Company's risk profile. The Chief Financial Officer has ultimate responsibility to the Board for design, development and improvement of the risk management framework system and maintains the Company's risk register.

Risks are formally reviewed by risk owners. Management regularly reviews the risk register. The Board regularly reviews the risk register and results of audit programmes relating to risk controls.

Management has reported to the Board confirming the effectiveness of the Company's management of its material business risks.

The Risk Management System Framework is available on the Company's website at www.nzog.com/investor-information/corporate-governance.

Corporate Governance Best Practice Codes

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

In relation to code 2.7 of the NZX Code, the Company does not encourage its Directors to take part of their remuneration by way of equity. However, Directors do participate in the Company's Employee Share Ownership Plan to the extent detailed in this Annual Report.

Code 3.11 of the NZX Code recommends that a nominations committee to recommend Director appointments to the Board should be established. The Company has established a nominations committee however its role includes, in accordance with the ASX Recommendations, examining the director selection and appointment practices of the Company and the Board succession plans, and not recommending appointments to the Board. The Board as a whole undertakes responsibility for the recruitment and appointment of Directors.

The ASX Recommendations provide that the Board should disclose whether it has received assurance from the Chief Executive and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act (Australia) is founded on a sound system of risk management and internal control, and that the system is operating effectively in all material respects in relation to financial reporting risks (recommendation 7.3). The Company's CEO and CFO do not provide that declaration because the Corporations Act (Australia) does not apply and so the CEO and CFO do not have to provide the declaration in accordance with section 295A of that Act. However, as part of the financial statement preparation process undertaken every six months, the Company's management provides to the Board a management representation letter signed by both the CEO and CFO. It includes key representations that in essence cover the same topics as the section 295A Corporations Act declaration.

ASX Corporate Governance Council Recommendations Checklist Verification Worksheet

ASX Corporate Governance Council Recommendations	Compliance	Page Reference
Principle 1 – Lay solid foundations for management and oversight		
1.1 The entity has established the functions reserved to the board and those delegated to senior executives.	✓	67, 68
1.2 The entity has disclosed its process for evaluating the performance of senior executives.	✓	68
1.3 The entity has provided the information indicated in the guide to reporting on Principle 1 (see Annexure C).	✓	
Principle 2 - Structure the board to add value		
2.1 A majority of the board are independent directors.	✓	66
2.2 The chair is an independent director.	✓	66
2.3 The roles of chair and chief executive officer are not exercised by the same individual.	✓	64, 65
2.4 The board has established a nomination committee.	✓	67
2.5 The entity has disclosed the process for evaluating the performance of the board, its committees and individual directors.	✓	68
2.6 The entity has provided the information indicated in the guide to reporting on Principle 2 (see Annexure C).	✓	
Principle 3 – Promote ethical and responsible decision-making		
3.1 The entity has established a code of conduct and disclosed the code or a summary of the code.	✓	69
3.2 The entity has established a policy concerning diversity and disclosed the policy or a summary of that policy. The policy includes requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	✓	70
3.3 The entity has disclosed in its annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	✓	71
3.4 The entity has disclosed in its annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	✓	71
3.5 The entity has provided the information indicated in the guide to reporting on Principle 3.	✓	

ASX Corporate Governance Council Recommendations	Compliance	Page Reference
Principle 4 – Safeguard integrity in financial reporting		
4.1 The board has established an audit committee.	✓	66
4.2 The audit committee has been structured so that it: · consists only of non-executive directors · consists of a majority of independent directors · is chaired by an independent chair, who is not chair of the board · has at least three members.	✓	66
4.3 The audit committee has a formal charter.	✓	66
4.4 The entity has provided the information indicated in the guide to reporting on Principle 4 (see Annexure C).	✓	
Principle 5 – Make timely and balanced disclosure		
5.1 The entity has established written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclosed those policies or a summary of those policies.	✓	70
5.2 The entity has provided the information indicated in the guide to reporting on Principle 5 (see Annexure C).	✓	
Principle 6 – Respect the rights of shareholders		
6.1 The entity has a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclosed the policy or a summary of the policy.	✓	70
6.2 The entity has provided the information indicated in the guide to reporting on Principle 6 (see Annexure C).	✓	

ASX Corporate Governance Council Recommendations	Compliance	Page Reference
Principle 7 – RECOGNISE AND MANAGE RISK		
7.1 The entity has established policies for the oversight and management of material business risks and disclosed a summary of those policies.	✓	72-73
7.2 The board requires management to design and implement the risk management and internal control system to manage the entity's material business risks and report to it on whether those risks are being managed effectively. The board has disclosed that management has reported to it as to the effectiveness of the company's management of its material business risks.	✓	72-73
7.3 The board has disclosed whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	n/a	73
7.4 The entity has provided the information indicated in the guide to reporting on Principle 7 (see Annexure C).	✓	
Principle 8 – REMUNERATE FAIRLY AND RESPONSIBLY		
8.1 The board has established a remuneration committee.	✓	67
8.2 The remuneration committee is structured so that it: · consists of a majority of independent directors · is chaired by an independent chair · has at least three members.	✓	67
8.3 The entity clearly distinguishes the structure of non-executive directors' remuneration from that of executive directors and senior executives.	✓	67
8.4 The entity has provided the information indicated in the guide to reporting on Principle 8 (see Annexure C).	✓	

Shareholder Information

Stock Exchange Listing

The Company's securities are listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

Securities On Issue

As at 26 August 2014 New Zealand Oil & Gas Limited had the following securities:

Listed Ordinary Shares:	**Unlisted Partly Paid Shares:**
415,996,153 shares	7,821,000 shares
13,954 holders	22 holders

Top 20 Shareholders

Top 20 registered holders of Listed Ordinary Shares as at 26 August 2014:

	Name	**Shares Held**	**% of Issued Capital**
1	HSBC Nominees (New Zealand) Limited A/C State Street	65,033,906	15.63%
2	JPMorgan Chase Bank NA NZ Branch	22,550,276	5.42%
3	Citibank Nominees (New Zealand) Limited	14,248,458	3.42%
4	Leveraged Equities Finance Limited	13,711,210	3.29%
5	Resources Trust Limited	10,472,932	2.51%
6	National Nominees New Zealand Limited	10,157,961	2.44%
7	Accident Compensation Corporation	9,968,522	2.39%
8	BNP Paribas Nominees (NZ) Limited	9,177,375	2.20%
9	Sik-On Chow	5,350,000	1.28%
10	New Zealand Superannuation Fund Nominees Limited	4,792,333	1.15%
11	Resource Nominees Limited	4,664,161	1.12%
12	Riuo Hauraki Limited	4,102,623	0.98%
13	Citicorp Nominees Pty Limited	3,160,192	0.75%
14	FNZ Custodians Limited	2,937,177	0.70%
15	Custodial Services Limited	2,822,145	0.67%
16	HSBC Nominees (New Zealand) Limited	2,532,791	0.60%
17	TEA Custodians Limited	2,358,570	0.56%
18	ASB Nominees Limited	2,129,030	0.51%
19	Chung King Tan	2,034,000	0.48%
20	ASB Nominees Limited	1,800,000	0.43%

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

Substantial Shareholders

Substantial Shareholder Notices are received pursuant to the Securities Markets Act 1988. Shareholders are required to disclose their holding to the issuer and the issuer's registered exchanges when:

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

The following Substantial Shareholder Notices were received since the date of the last Annual Report, in respect of holdings of ordinary shares of New Zealand Oil & Gas Limited:

Date	Shareholder	Shares Held	% of Issued Capital
3 October 2013	Zeta Resources Limited	38,045,953	9.24%
25 November 2013	Zeta Resources Limited	42,261,540	10.26%
24 January 2014	Blair Tallott[1]	19,786,065	4.80%
24 January 2014	Accident Compensation Corporation (ACC)	19,770,892	4.80%
3 February 2014	Zeta Resources Limited	51,184,225	12.42%
10 April 2014	Zeta Resources Limited	57,367,545	13.79%
15 May 2014	Zeta Resources Limited	62,056,764	14.92%
11 July 2014	Zeta Resources Limited	72,073,046	17.33%

1. Blair Tallot held 15,173 shares (0.004%) as a beneficial owner, while also managing the holdings of Accident Compensation Corporation (ACC) 19,770,892.

As at 26 August 2014 there were no other substantial shareholders with 5% or more of the Ordinary Shares (HSBC Nominees (New Zealand) Limited A/C State Street and JPMorgan Chase Bank NA NZ Branch are above 5% but hold the shares on behalf of a number of beneficial shareholders).

Distribution of Security Holders

As at 26 August 2014:

Number of Shares	Holders of Listed Ordinary Shares	Holding Quantity of Listed Ordinary Shares %	Holders of Unlisted Partly Paid Shares	Holding Quantity of Unlisted Partly Paid Shares %
1 to 99	157	0.0%		
100 to 199	57	0.0%		
200 to 499	201	0.0%		
500 to 999	1,708	0.3%		
1,000 to 1,999	2,360	0.8%		
2,000 to 4,999	2,996	2.2%		
5,000 to 9,999	2,285	3.7%		
10,000 to 49,999	3,341	16.0%	3	1.5%
50,000 to 99,999	445	6.9%	5	5.1%
100,000 to 499,999	345	15.2%	11	39.0%
500,000 to 999,999	27	4.3%	2	15.8%
1,000,000 to 999,999,999	32	50.6%	1	38.6%
Total	13,954	100.0%	22	100.0%

On 26 August 2014 there were 415 holders with non-marketable parcels of shares as determined by the NZX (under 500 shares), and 1,566 holders as determined by the ASX (under A$500 in value).

Voting Rights

Article 16 of the Company's Constitution states that a shareholder may exercise the right to vote at a meeting of shareholders either in person or through a representative. Where voting is by show of hands or by voice every shareholder present in person or by representative has one vote. In a poll every shareholder present in person or by representative has one vote for each fully paid share. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes. The Board has determined, for the purpose of the 2013 Annual Meeting, that postal voting will be permitted.

Trading Statistics

For the 12 months ended 30 June 2014	High	Low	Volume
NZX (Trading Code NZO)	NZ$0.86 on 7/11/13	NZ$0.75 on 11/1/14	82,201,300
ASX (Trading Code NZO)	A$0.77 on 13/03/14	A$0.69 on 13/09/13	3,812,500

NZX Trading Halt

The NZX halted trading in the company's shares on the NZX for approximately two hours on 16 January 2014 pending a response to its question about Matuku-1 drilling.

Share Buy-backs

There is not a current on-market buy-back scheme in operation.

NZX Waiver

The NZX granted the company a waiver from NZX Listing Rule 10.11.7, which can be located on the company's website at nzog.com/coporategoverance

Dividend Payments and Reinvestment Plan

Dividend Payments

The company declared an unimputed final dividend for the year of 3 cents per share, which was paid 26 September 2014 to shareholders on record as at 12 September 2014. An unimputed interim dividend of 3 cents per share was paid to shareholders in April 2014.

Dividend Reinvestment Plan

The company's Dividend Reinvestment Plan (Plan) remains in operation for shareholders resident in New Zealand and Australia. These shareholders can choose to invest all or part of their future dividends in taking up additional shares, instead of receiving cash. New shares issued under the Plan will be offered at the weighted average sale price for shares sold on each of the first five business days immediately following the dividend record date. Shareholders who wish to participate in the Plan or amend previous participation instructions may do so by completing a Participation Notice by 5pm on 12 September 2014 for the current dividend payment. Full Terms and Conditions of the Plan and the Participation Notice are available on the company's website at www.nzog.com/drp

Direct Crediting of Dividends Payments

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

Share Registries

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

Directors' Remuneration

The total remuneration and other benefits to Directors for services in all capacities during the year ended 30 June 2014 was:

Mr R J Finlay	$76,750
Mr P G Foley	$68,000
Mr P W Griffiths	$158,625
Mr A T N Knight*	$702,443
Mr A R Radford**	$21,397
Mr D R Scoffham	$68,000
Mr M Tume	$78,000
Mr RD Ritchie***	$52,120

* Managing Director - includes remuneration received as Chief Executive.

** for the period to 29 October 2013

*** for the period from 29 October 2013

Directors' Securities Interests

The interests of Directors in securities of the Company at 30 June 2014 were:

	Direct Interest	Indirect Interest
Mr P G Foley	170,766 ordinary shares	
Mr P W Griffiths	63,609 ordinary shares	150,000 partly paid shares
Mr A T N Knight	37,000 ordinary shares	3,000,000 partly paid shares
Mr D R Scoffham*	110,000 ordinary shares	132,888 ordinary shares
Mr R J Finlay		1,000,000 ordinary shares

* Indirect interest in 57,888 ordinary shares held by D Scoffham and others as trustees of a Trust and an indirect interest in 75,000 ordinary shares owned by D Scoffham's wife.

Changes to Directors' Securities Interests during the financial year were:

- Mr Foley acquired a direct interest in 9,888 ordinary shares through the Dividend Reinvestment Plan.
- Mr Griffiths acquired a direct interest in 2,017 ordinary shares through the Dividend Reinvestment Plan and a further 50,000 ordinary shares through an on market purchase.
- Mr Scoffham acquired an indirect interest in 3,352 ordinary shares through the Dividend Reinvestment Plan in his capacity as trustee.
- Mr Knight ceased to hold an indirect interest in 150,000 partly paid shares on expiry of the applicable term of the employee share plan shares.

Directors' Interests Register

Directors' interests recorded in the Interests Register of the Company as at 30 June 2014 are detailed below. Notices given or adjusted during the financial year ended 30 June 2014 are marked with an asterisk (*). Each such Director will be regarded as interested in all transactions between the Company and the disclosed entity.

Mr P G Foley	
Minter Ellison Rudd Watts lawyers	Partner
Liquigas Limited	Legal Advisor
Shell (Petroleum Mining) Company Limited	Legal Advisor
Vector Limited	Legal Advisor
Grosvenor Financial Services Group	Board Member
National Provident Fund	Member of Board of Trustees
Racing Integrity Unit Limited*	Board Member
Mr P W Griffiths	
Civil Aviation Authority	Deputy Chairman
Northland Port Corporation	Director
New Zealand Diving & Salvage Limited*	Director and shareholder
Z Energy Limited*	Chairman
Mr A T N Knight	
Petroleum Exploration and Production Association of New Zealand*	Deputy Chairman
Gas Industry Company Limited	Director
Sea Group Holdings Limited	Director and shareholder
Mr R Ritchie	
Nil	
Mr D R Scoffham	
Pan Pacific Petroleum NL	Shareholder
Mr M Tume	
Yeo Family Trustee Limited	Director
Long Board Limited	Director
Welltest Limited*	Director
Guardians of New Zealand Superannuation	Member of the Board
New Zealand Refining Company Limited	Director
Lumo Energy Australia Pty Limited	Director
Infratil Energy Australia Pty Limited	Director
Koau Capital Partners Ltd	Director
Maori Trustee Advisory Board	Member of the Board of Trustees
Infratil Limited	Director and Shareholder
Align*	Advisory Board Member
Mr R J Finlay	
Mundane Asset Management	Chairman
Moeraki Limited	Director
Public Trust	Board Member
Rural Equities Limited	Deputy Chairman and shareholder

Employees Remuneration

During the year ended 30 June 2014, 17 employees (excluding the Chief Executive) received individual remuneration over $100,000.

$110,001 - $120,000	1
$130,001 - $140,000	1
$140,001 - $150,000	1
$150,001 - $160,000	2
$160,001 - $170,000	1
$170,001 - $180,000	1
$180,001 - $190,000	1
$270,001 - $280,000	1
$360,001 - $370,000	2
$380,001 - $390,000	1
$400,001 - $410,000	1
$410,001 - $420,000	1
$470,001 - $480,000	1
$480,001 - $490,000	1
$540,000 - $550,000	1

Officers' Securities Interests

The interests of the current Company Officers (excluding the Chief Executive) in securities of the Company at 30 June 2014 were:

- Ralph Noldan in respect of 20,583 ordinary shares (4,000 of which indirectly) and 557,000 unlisted partly paid shares.
- John Bay in respect of 35,000 ordinary shares and 390,000 unlisted partly paid shares.
- Andrew Jefferies in respect of 1,000 ordinary shares and 377,000 unlisted partly paid shares.
- Andre Gaylard in respect of 357,000 unlisted partly paid shares.
- John Pagani in respect of 300,000 unlisted partly paid shares.
- Bill Houston in respect of 288,000 unlisted partly paid shares.

Donations

There were no donations made during the year.

Directors' and Officers Liability Insurance

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

Corporate Directory

Directors

Peter Griffiths
Chairman

Rodger Finlay

Paul Foley

Andrew Knight
Managing Director

Rod Ritchie

David Scoffham

Mark Tume

Management

Andrew Knight
Chief Executive & Managing Director

John Bay
Vice President and General Manager Commercial

Andre Gaylard
Chief Financial Officer

William Houston
General Manager, Exploration

Andrew Jefferies
Vice President and General Manager
Operations and Engineering

Ralph Noldan
General Counsel and Company Secretary

John Pagani
External Relations Manager

Registered and Head Office

Level 20, 125 The Terrace
PO Box 10725
Wellington 6143
New Zealand

Telephone: + 64 4 495 2424
Freephone: 0800 000 594 (within NZ)
Facsimile: + 64 4 495 2422
Email: enquiries@nzog.com
Website: www.nzog.com

Auditors

KPMG

KPMG Centre
10 Customhouse Quay
Wellington 6011
New Zealand

Share Registrar

New Zealand

Computershare Investor Services Limited
Private Bag 92119
Auckland 1142
Level 2, 159 Hurstmere Road
Takapuna, Auckland 0622

Freephone: 0800 467 335 (within NZ)
Telephone: + 64 9 488 8700
Facsimile: + 64 9 488 8787
Investor Enquiries: +64 9 488 6777

Australia

Computershare Investor Services Pty Limited
GPO Box 3329
Melbourne VIC 3001
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067

Freephone: 1800 501 366 (within Australia)
Telephone: + 61 3 9415 4083 (investors)
Facsimile: + 61 3 9473 2500

Managing your shareholding online

To change your address, update your payment instructions and to view your registered details including transactions, please visit

www.investorcentre.com/nz

General enquiries can be directed to:
enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

Appendix 1.

NZ PERMIT MAPS

INDONESIA

Palmerah Baru Production Sharing Contract
36% New Zealand Oil & Gas

Kisaran Production Sharing Contract
22.5% New Zealand Oil & Gas

Bohorok Production Sharing Contract
45% New Zealand Oil & Gas

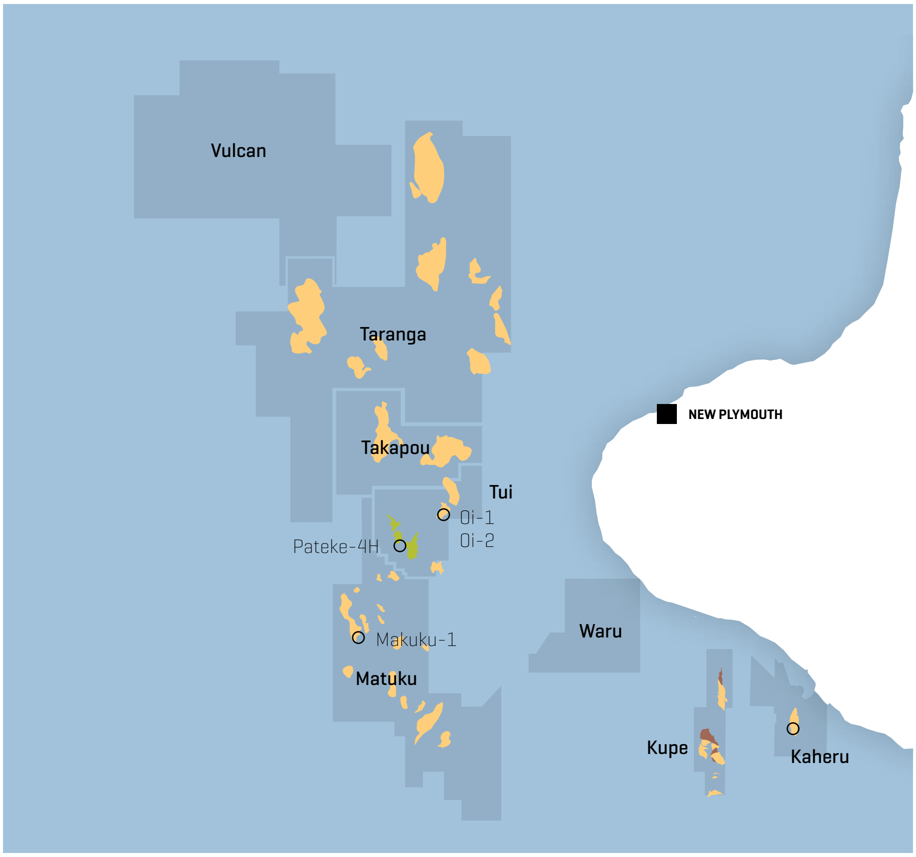
MNK Kisaran Production Sharing Contract
11.25% New Zealand Oil & Gas
33.75% Bulkit Energy (Operator)
55% Pacific Oil & Gas

MAP LEGEND

New Zealand Oil & Gas Permits

TUNISIA

Diodore Prospecting Permit
100% New Zealand Oil & Gas



OFFSHORE TARANAKI BASIN
NEW PLYMOUTH

Vulcan [PEP 55793]
30% New Zealand Oil & Gas

Taranga [PEP 52593]
50% New Zealand Oil & Gas

Takapou [PEP 53473]
50% New Zealand Oil & Gas

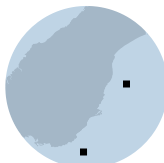
Matuku [PEP 51906]
12.5% New Zealand Oil & Gas

Tui [PEP 38158]
27.5% New Zealand Oil & Gas

Kaheru [PEP 52181]
35% New Zealand Oil & Gas

Waru [PEP 54857]
100% New Zealand Oil & Gas

Kupe [PEP 38146]
15% New Zealand Oil & Gas



OFFSHORE CANTERBURY - GREAT SOUTH BASIN
CANTERBURY

Clipper [PEP 52717]
50% New Zealand Oil & Gas

Galleon [PEP 55792]
100% New Zealand Oil & Gas

Toroa [PEP 55794]
30% New Zealand Oil & Gas

MAP LEGEND

- Gas
- Oil
- Prospects & Leads
- New Zealand Oil & Gas Permits
- Wells


THE EXPLORERS
NEW ZEALAND OIL & GAS