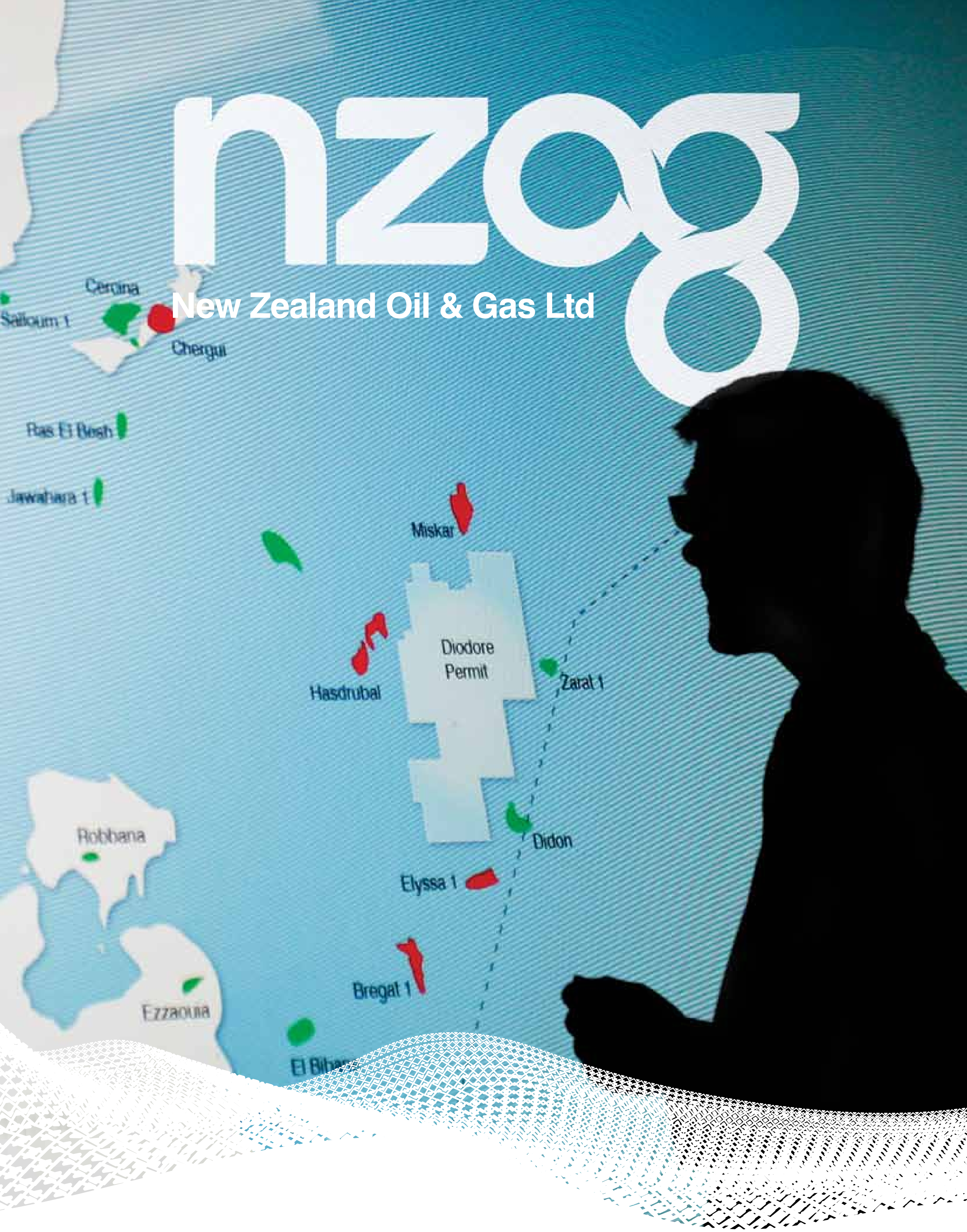
New Zealand Oil & Gas Ltd



AnnualReport

2011

Contents

Chairman's Review

During the year ended 30 June 2011 the company faced a very challenging time in dealing with the adverse flow-on impact of its investments in Pike River Coal Ltd (PRCL), whose mine near Greymouth suffered from explosions and a tragic loss of lives in November 2010. However, despite the resultant losses on NZOG's investments in PRCL, which have been provided for in the financial statements, NZOG still ended the year in a very sound financial position and having an expanded outlook overall for its oil and gas operations.

Company Operations

The Kupe and Tui projects combined provided the company with NZ$106.5 million in revenues for the financial year, translating into NZ$52.7m in operating profits.

Kupe was the main contributor and stands out as a core long-term earnings base for the company. With respect to the Tui project, additional operating cost was incurred for rectifying problems with the Pateke producer well, which was successfully brought back into production in October 2010. Additionally, in July 2011 the operator of the Tui joint venture advised that it had reduced the estimated initial proved and probable (2P) developed reserves in the Tui fields and this is likely to curtail production beyond 2019. However, there are other, undrilled, prospects within the production licence area and a discovery in any one of these could add to existing reserves.

Elsewhere on the exploration front, the company's most advanced prospect is in permit 51311 in offshore Taranaki, for which assessment of drilling options is under active consideration. The permit lies between the Kupe and Maari fields and the proposed well will penetrate a stacked series of Miocene sands. There is potential for a sizeable discovery. NZOG holds a 90% interest in PEP 51311 but is amenable to farming down its equity to around 50%.

As an adjunct to these and other New Zealand activities, which still form the core of NZOG's operations, the company has now acquired interests overseas, through the award of a prospecting permit in offshore Tunisia and a joint study area in onshore Indonesia (Sumatra). In Tunisia the Diodore permit encompasses the Alyane prospect over which it is intended to acquire new seismic data before the end of calendar 2011. NZOG was successful in obtaining this area 100% and will look to have a partner join it ahead of drilling this very interesting prospect.

Financial Result

The company sustained a loss of NZ$75.9m for the financial year to 30 June 2011. The overwhelming adverse factor leading to this result was a provision of NZ$98.9m for PRCL related provisions and losses. If this loss provision and unrealised foreign exchange losses are excluded, then NZOG would have recorded a net profit after tax for the year of NZ$30.6m.

Given that the underlying performance of the company was sound, particularly in the second half of the year, and with a positive outlook, the Board determined that a fully imputed annual dividend of 2 cents per share should be offered to shareholders. A Dividend Reinvestment Plan is available to New Zealand and Australian resident shareholders who want to take all or part of their dividend in additional shares.

Management

The recruitment process to select a new chief executive for NZOG is well under way, following David Salisbury's decision to leave the position on 29 December 2011.

The new CEO will be supported by the company's dedicated executive management team which has been built up over the past few years and a smooth transition is anticipated.

Outlook

Right now what you have in NZOG is a financially stable company which continues to generate profits from the Tui and Kupe projects and which holds within its exploration portfolio candidates for drilling in Taranaki and, I expect, at Diodore in Tunisia. The company also has the financial capacity and intent to move into new project areas, both in exploration and reserves development, to enhance future profitability.

Tony Radford
Chairman

CEO's Review

In last year's Annual Report, I stated that NZOG was working hard to implement a two-pronged business strategy: to manage and maximise the value of our existing asset portfolio; whilst securing new value-adding business opportunities. It has taken time to find the right investments, but we have now taken significant steps towards diversifying our portfolio and establishing new core areas of business.

NZOG is generating good cash flows from our interests in the Kupe and Tui fields which both lie in offshore Taranaki. NZOG has a portfolio of opportunities in New Zealand and resulting from a systematic screening of suitable international new ventures we have identified Tunisia and Indonesia as our new areas of interest.

While we have focussed on managing our existing assets and diversification by securing new growth opportunities, we have also had to address the impact of the Pike River mine tragedy.

Here at NZOG we watched, along with the rest of New Zealand and others around the world, as the tragic events at Pike River unfolded in November 2010. Within days of the first explosion, the decision was taken by NZOG to provide a $12m loan to Pike River Coal Ltd (PRCL), so that the mine staff could be paid and the rescue effort could be supported.

Subsequently the situation deteriorated with further explosions, fire and the confirmed loss of 29 lives. There was a great deal of uncertainty about the mine's future and PRCL advised that it was facing insolvency. Receivers were appointed by NZOG at the request of PRCL's directors. NZOG's $12m loan has largely funded the receivership to date, including paying mine employees their statutory entitlements, stabilising the mine atmosphere and undertaking a sales process.

The Pike River Royal Commission of Inquiry has commenced its hearings. NZOG provided written statements but was not asked to appear at the first two phases of hearings. This is not surprising. After PRCL was publicly listed in 2007, NZOG was a minority shareholder. As required by law, NZOG neither controlled nor managed PRCL; its rights and influences as a shareholder were generally no greater than any other shareholder.

NZOG's annual accounts as at 30 June 2011 record its total secured PRCL debt as $51.5 million and its total unsecured PRCL debt as $14.6 million. The Receivers are continuing with the mine stabilisation, the sales process and insurance claims. In preparing the annual accounts NZOG has concluded that it can reasonably expect to recover the secured debt and no impairment has been taken against this secured debt. Recovery of the unsecured debt is also possible, but less certain. Therefore an impairment has been taken against this unsecured debt and also against NZOG's shareholding, which has a book value of $77.1 million.

Production

Operationally it was a good year, with NZOG's two producing assets – Kupe and Tui – providing more than NZ$100m in revenue during the financial year.

TUI

Tui production for the year ended 30 June 2011 was slightly over forecast, at 2.81 million barrels (mmbbls). NZOG's 12.5% share of production was just over 350,000 barrels.

NZOG's share of Tui oil sales was 321,400 barrels, providing NZ$40.14m in revenue at an average price per barrel of US$96 or NZ$125. NZOG's share of oil in stock at the end of the year was approximately 39,000 barrels.

The financial year began with one of the four producing wells, Pateke 3H, out of service due to an issue with the gas lift system. Pateke 3H was brought back into service in October 2010 following a successful workover and since then field production has typically been in the range of 7,000 to 8,000 barrels per day.

In July 2011, the Tui Operator, AWE, announced that preliminary work had indicated that the gross initial developed 2P reserves recoverable from the existing four well development of the Tui fields should be reduced to between 40 and 42 mmbbls.

The reduction in reserves is obviously disappointing but does not fall outside the range of probabilities previously identified. There had been a 90% confidence level (P90) that 40 mmbbls would be recovered and a 50% confidence level (P50) that 50 mmbbls would be recovered. The P50 has now moved closer to the P90 estimate.

The impact on NZOG is certainly significant but should not be overstated. It amounts to approximately a 10% reduction in NZOG's total oil and gas reserves; and a 2% reduction in NZOG's expected production in the 2012 financial year.

KUPE

Kupe has cemented its place as NZOG's most significant revenue source.

Kupe went into permanent production in March 2010 and in November 2010 the production plant passed a rigorous regulatory inspection requiring a three week shutdown.

For the 2011 financial year, Kupe produced 17.6 petajoules (PJ) of sales gas, 1.84 mmbbls of light oil and almost 75,000 tonnes of LPG.

NZOG's 15% share of production amounted to 2.63 PJ of sales gas, 276,000 barrels of light oil and 11,200 tonnes of LPG. NZOG's revenue from the three Kupe products was NZ$66.33m.

The Kupe field and the three production wells performed extremely well during the year. The latest reserves review undertaken by the Operator, Origin Energy, concluded that there should be no change to the initial 2P reserves estimate following an increase in July 2010. Total production for the year was slightly below expectations, with production limits imposed from March 2011 due to faults with the gas compressor units. Replacement parts were installed and full plant capacity was restored in mid-July 2011.

New Zealand Exploration

NZOG is involved in one permit in the Canterbury Basin and has a strong presence in the northern region of the offshore Taranaki Basin. The prospectivity of these permits continues to be assessed. There is also further exploration potential within the Tui and Kupe permits. However, the most advanced opportunity lies in our permit PEP 51311 in the southern offshore Taranaki basin, to the south and west of Kupe.

Here NZOG has identified a stacked series of Miocene coastal sands, with estimates of mean prospective resources in excess of 200 mmbbls of oil. During the year NZOG worked to bring the prospect – now named Kakapo – to drill-ready status. New seismic modelling has identified a possible gas cap on the main postulated oil column, thereby upgrading the estimated chance of success.

Australian listed resource company, Raisama Ltd, has come in as a joint venture partner. Raisama will get a 10% stake in the permit in return for paying 20% of the cost (with a cap) of the Kakapo-1 well. Other companies are reviewing detailed data as NZOG looks for an additional joint venture partner and targets an equity level of about 50%.

The 'drill or drop' commitment deadline for this permit has been extended by the Government to January 2012. Assessment of possible drilling rig options is ongoing.

EXPANDED HORIZONS

A major discovery at Kakapo would be transformational for NZOG. However, this is exploration drilling. We rank this prospect very highly, but the historical rate of commercial success in offshore Taranaki is around 1 in every 10 wells.

We have to accept that New Zealand is a hard place to find commercial quantities of oil and gas, and that the available opportunities for NZOG may not be sufficient to be confident we can meet our growth objectives from New Zealand alone.

Since 2008 we have been looking further afield. We have examined a range of opportunities, but found most of them had too much geological risk or were unattractive financially. However, through the screening process we found ourselves focusing on two particular areas of interest – Tunisia and Indonesia.

Tunisia

We were attracted to Tunisia due to its combination of good prospectivity, established exploration and production activity, reasonable fiscal terms, and relative ease of doing business. The move towards more open democracy in Tunisia enhances its attractiveness as a place to invest.

Through our networks we were able to identify available acreage in a productive basin. The Diodore permit that we acquired in June 2011 is surrounded by discovered and producing oil and gas fields and from the existing data we have already identified a sizeable prospect within the permit. We expect to conduct a seismic survey before the end of 2011 and work the prospect up to drillable status rapidly thereafter.

Diodore is just the first step. We have relocated a senior explorationist to Tunis and we are actively pursuing further opportunities.

Indonesia

Indonesia has a long oil and gas history but remains underexplored by western standards. In recent years the contract terms and business climate have improved considerably. However, to succeed in Indonesia it is useful to have good local knowledge and contacts, so as part of our activities NZOG has established a strategic relationship with Bukit Energy, a new company put together by experienced oil professionals with a deep understanding of Indonesia.

A large portfolio of opportunities has been identified and reviewed, most of them in onshore Sumatra. This highly productive region offers a variety of opportunities, including open acreage, regular bid rounds and farm-in possibilities.

The first opportunity has been secured – a Joint Study Agreement (JSA) in northern Sumatra. Other opportunities in Indonesia are under active assessment.

INVESTING IN GROWTH

NZOG is committed to a clear strategy and is taking positive steps towards achieving its strategic goals.

We are investing in growth, which does have a cost. Our total general and administration costs for the financial year were $11.1m. This headline number needs to be broken down to really understand our expenditure. It includes a $500,000 donation to the Pike River Disaster Relief Trust, and another $300,000 in Pike River related expenditure. Then there are the regulatory and communication costs associated with being a publicly listed company, which are more than $1m. A significant proportion of the remaining expenditure was directly or indirectly (through staff time) spent on identifying and evaluating new investment opportunities. The cost of managing our existing oil and gas assets was around $5m, or less than 5% of the revenue earnt from those assets.

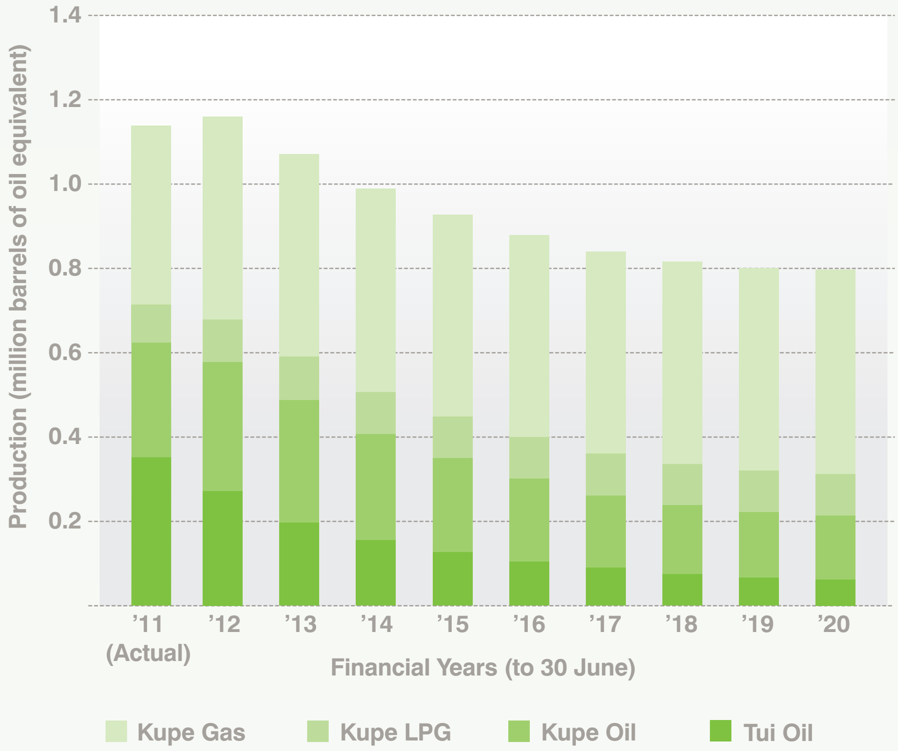
The last financial year was undeniably a tough one for NZOG. The Pike River tragedy, the Tui reserves reduction and global economic events severely impacted on our share price. However, NZOG has a strong balance sheet and continues with its strategy to pursue sensible growth opportunities in the oil and gas sector, both at home and abroad.

We were already taking steps to broaden our portfolio to lessen the impact of one-off events and we are now making significant progress with that diversification. I am hopeful that there will be a number of milestones achieved before my departure at the end of 2011 and I know the Board and management are committed to carrying the current strategy forward aggressively.

David Salisbury
Chief Executive

Reserves and Production

Production – Actual and Forecast



Source: Production forecasts have been derived from information provided by the Tui and Kupe Operators.

Reserves

Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2011	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui	2.4			2.4
Kupe	2.4	36.8	151	9.6
Total				12.0

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

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

Oil and gas reserves are reported as at 30 June 2011, and in accordance with Section 10.11 of the NZX Listing Rules. This Reserves Statement has been compiled by NZOG's Exploration Manager, Mac Beggs (who has a PhD in geological sciences from the University of California), and accurately reflects information supplied by the respective joint venture Operators.

NB: Subsequent to the end of the financial year, the Tui Operator, AWE, issued a preliminary reserves review. This put the initial proven and probable (2P) developed Tui reserves at 40 to 42 mmbbls. This range is being independently assessed but as at 1 September 2011 suggests that NZOG's remaining Tui 2P reserves are approximately 1.2 mmbbls.

Consolidated Financial Statements

for the year ended 30 June 2011

DIRECTORS' DECLARATION

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

(1) The financial statements and notes set out in the relevant pages of the Annual Report comply with the accounting standards issued by the New Zealand Institute of Chartered Accountants; and

(2) The financial statements for the year to 30 June 2011 and notes to those financial statements give a true and fair view of the financial position and performance of the Company; and

(3) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

A R Radford	**PG Foley**
Director	Director
23 August 2011	23 August 2011

Consolidated Income Statement

For the year ended 30 June 2011

		GROUP		PARENT	
			Restated *		
	Notes	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue	4	**106,473**	99,374	**-**	-
Operating costs	5	**(53,805)**	(33,101)	**-**	-
Gross profit		**52,668**	66,273	**-**	-
Other income	4	**2,430**	736	**783**	677
Exploration and evaluation costs expensed	18	**(3,434)**	(30,697)	**-**	-
Other expenses	6	**(11,058)**	(10,701)	**(10,445)**	(10,301)
Results from operating activities		**40,606**	25,611	**(9,662)**	(9,624)
Finance cost	7	**(113,861)**	(12,211)	**(105,241)**	(13,753)
Finance income	7	**10,628**	2,263	**19,322**	12,887
Net finance income/(costs)	7	**(103,233)**	(9,948)	**(85,919)**	(866)
Share of loss from associates	16	**-**	(11,470)	**-**	-
Profit/(loss) before income tax and royalties		**(62,627)**	4,193	**(95,581)**	(10,490)
Royalties expense	8	**(7,981)**	(7,457)	**-**	-
Income tax (expense)/benefit	9	**(5,279)**	(645)	**2,897**	(302)
Profit/(loss) for the year		**(75,887)**	(3,909)	**(92,684)**	(10,792)
Profit/(loss) for the year attributable to:					
Equity holders of Parent		**(75,887)**	(3,909)		
		(75,887)	(3,909)		

* See changes in accounting policy note 2(Z)(ii)

		Cents	Cents
Earnings per share attributable to shareholders:			
Basic earnings per share	29	**(19.1)**	(0.8)
Diluted earnings per share	29	**(19.1)**	(0.8)
Net Tangible Asset Backing per share		**87**	114

The above Consolidated Income Statement should be read with the accompanying notes on pages 13 – 47

New Zealand Oil & Gas Limited

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2011

		GROUP		PARENT	
			Restated *		
		2011	2010	2011	2010
	Notes	$'000	$'000	$'000	$'000
Profit/(loss) for the year		**(75,887)**	(3,909)	**(92,684)**	(10,792)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	28	**(150)**	-	**-**	-
Fair value gain/(loss) on available for sale financial assets	28	**-**	(25,396)	**-**	-
Foreign currency translation differences	28	**(9,252)**	(8,960)	**-**	-
Other comprehensive income for the year		**(9,402)**	(34,356)	**-**	-
Total comprehensive income for the year		**(85,289)**	(38,265)	**(92,684)**	(10,792)
Total comprehensive income for the year:					
Attributable to equity holders of the Parent		**(85,289)**	(38,265)		

* See changes in accounting policy – note 2(Z)(ii)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes on pages 13 – 47

New Zealand Oil & Gas Limited

Consolidated Statement of Financial Position

As at 30 June 2011

	Notes	GROUP 2011 $'000	GROUP Restated * 2010 $'000	GROUP 1 July 2009 * $'000	PARENT 2011 $'000	PARENT 2010 $'000
ASSETS						
Current assets						
Cash and cash equivalents	11	**149,360**	142,404	174,753	**101,880**	107,606
Receivables and prepayments	12	**23,733**	20,793	10,852	**121,673**	204,525
Inventories	13	**869**	140	637	**-**	-
Current tax receivables		**1,980**	1,842	-	**665**	665
Convertible Bond	14	**35,103**	-	-	**-**	-
Derivative financial instruments		**-**	-	190	**-**	-
Total current assets		**211,045**	165,179	186,432	**224,218**	312,796
Non current assets						
Convertible Bond	14	**-**	39,933	-	**-**	-
Investments in associates	16	**-**	77,088	74,781	**-**	-
Evaluation and exploration assets	18	**7,322**	6,641	5,236	**-**	4,430
Oil and gas assets	19	**232,579**	253,917	239,460	**-**	-
Property, plant and equipment	20	**281**	336	245	**281**	336
Intangible assets	21	**41**	166	105	**41**	166
Net deferred tax asset	26	**-**	-	-	**1,756**	-
Other financial assets	22	**15,705**	19,687	48,872	**50,171**	66,716
Total non current assets		**255,928**	397,768	368,699	**52,249**	71,648
Total assets		**466,973**	562,947	555,131	**276,467**	384,444
LIABILITIES						
Current liabilities						
Payables	23	**15,319**	20,797	29,353	**1,691**	1,361
Current tax liabilities		**-**	-	493	**-**	-
Borrowings	24	**14,644**	3,217	-	**-**	-
Total current liabilities		**29,963**	24,014	29,846	**1,691**	1,361
Non current liabilities						
Borrowings	24	**48,680**	59,588	-	**-**	-
Restoration and rehabilitation provision	25	**15,715**	11,998	8,144	**-**	-
Net deferred tax liability	26	**28,176**	23,137	22,323	**-**	1,141
Total non current liabilities		**92,571**	94,723	30,467	**-**	1,141
Total liabilities		**122,534**	118,737	60,313	**1,691**	2,502
Net assets		**344,439**	444,210	494,818	**274,776**	381,942
EQUITY						
Share capital	27	**358,233**	353,741	347,192	**358,233**	353,741
Reserves	28	**(17,766)**	(8,697)	25,571	**7,164**	6,831
Retained earnings		**3,972**	99,166	122,055	**(90,621)**	21,370
Total equity		**344,439**	444,210	494,818	**274,776**	381,942

* See changes in accounting policy – note 2(Z)(ii)

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes on pages 13 – 47

New Zealand Oil & Gas Limited

Consolidated Statement of Changes in Equity

For the year ended 30 June 2011

		Attributable to equity holders of New Zealand Oil & Gas Limited			
GROUP	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2009		347,192	25,571	124,029	496,792
Prior period adjustment *		-	-	(1,975)	(1,975)
Balance at 1 July 2009 (Restated)		347,192	25,571	122,054	494,817
Comprehensive income					
Profit/(loss) for the year		-	-	(3,909)	(3,909)
Other comprehensive income, net of tax					
Fair value gain/(loss) on available for sale financial assets	28	-	(25,396)	-	(25,396)
Foreign currency translation differences	28	-	(8,960)	-	(8,960)
Total comprehensive income		-	(34,356)	(3,909)	(38,265)
Transactions with owners					
Shares issued	27	6,549	-	-	6,549
Share based payment	28	-	368	-	368
Transfer of expired share based payments during the year	28	-	(280)	280	-
Dividend paid (5 cents per ordinary share)		-	-	(19,259)	(19,259)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
Balance at 30 June 2010 (Restated)		353,741	(8,697)	99,166	444,210
Balance at 1 July 2010		353,741	(8,697)	99,166	444,210
Comprehensive income					
Profit/(loss) for the year		-	-	(75,887)	(75,887)
Other comprehensive income, net of tax					
Fair value loss through other comprehensive income	28	-	(150)	-	(150)
Foreign currency translation differences	28	-	(9,252)	-	(9,252)
Total comprehensive income		-	(9,402)	(75,887)	(85,289)
Transactions with owners					
Shares issued	27	7,009	-	-	7,009
Buy back of issued shares	27	(2,517)	-	-	(2,517)
Share based payment	28	-	488	-	488
Transfer of expired share based payments during the year	28	-	(155)	155	-
Dividend paid (5 cents per ordinary share)		-	-	(19,462)	(19,462)
Supplementary dividend		-	-	(663)	(663)
Foreign investor tax credit		-	-	663	663
Balance at 30 June 2011		358,233	(17,766)	3,972	344,439

* See changes in accounting policy note 2(Z)(ii)

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 13 – 47

PARENT	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 July 2009		347,192	6,743	51,141	405,076
Comprehensive income					
Profit/(loss) for the year		-	-	(10,792)	(10,792)
Total comprehensive income		-	-	(10,792)	(10,792)
Transactions with owners					
Shares issued	27	6,549	-	-	6,549
Share based payment	28	-	368	-	368
Transfer of expired share based payments during the year	28	-	(280)	280	-
Dividend paid (5 cents per ordinary share)		-	-	(19,259)	(19,259)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
Balance at 30 June 2010		353,741	6,831	21,370	381,942
Balance at 1 July 2010		353,741	6,831	21,370	381,942
Comprehensive income					
Profit/(loss) for the year		-	-	(92,684)	(92,684)
Total comprehensive income		-	-	(92,684)	(92,684)
Transactions with owners					
Shares issued	27	7,009	-	-	7,009
Buy back of issued shares	27	(2,517)	-	-	(2,517)
Share based payment	28	-	488	-	488
Transfer of expired share based payments during the year	28	-	(155)	155	-
Dividend paid (5 cents per ordinary share)		-	-	(19,462)	(19,462)
Supplementary dividend		-	-	(663)	(663)
Foreign investor tax credit		-	-	663	663
Balance at 30 June 2011		358,233	7,164	(90,621)	274,776

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes on pages 13 – 47

New Zealand Oil & Gas Limited

Consolidated Statement of Cash Flow

For the year ended 30 June 2011

	Notes	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Cash flows from operating activities					
Receipts from customers		**119,353**	88,949	**-**	-
Interest received		**3,196**	2,421	**1,459**	1,736
Dividend income		**-**	3,283	**-**	-
Other revenue		**1,490**	600	**89**	600
Production and marketing expenditure		**(31,829)**	(13,943)	**-**	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		**(12,783)**	(12,469)	**(8,444)**	(10,011)
Royalties		**(8,265)**	(18,955)	**-**	-
Interest paid		**(2,557)**	(941)	**-**	-
Income taxes paid		**(3)**	(1,550)	**-**	-
Net cash inflow / (outflow) from operating activities	30	**68,602**	47,395	**(6,896)**	(7,675)
Cash flows from investing activities					
Repayment of loan to related party		**-**	6,000	**-**	6,000
Exploration and evaluation expenditure		**(3,768)**	(28,604)	**-**	(1,624)
Oil and gas expenditure		**(4,106)**	(34,859)	**-**	-
Purchase of financial assets		**-**	(741)	**-**	-
Purchase of shares in associate company		**-**	(13,921)	**-**	-
Issue of convertible bond		**-**	(42,144)	**-**	-
Purchase of property, plant and equipment		**(48)**	(445)	**(48)**	(445)
Loan to related party		**(25,000)**	(6,000)	**-**	(6,000)
Loan from/(to) wholly owned subsidiaries		**-**	-	**25,474**	(7,882)
Net cash inflow / (outflow) from investing activities		**(32,922)**	(120,714)	**25,426**	(9,951)
Cash flows from financing activities					
Issues of shares		**387**	287	**387**	287
Borrowings		**182**	63,049	**-**	-
Buy back of issued shares		**(2,517)**	-	**(2,517)**	-
Dividend paid		**(13,503)**	(13,655)	**(13,503)**	(13,655)
Net cash inflow / (outflow) from financing activities		**(15,451)**	49,681	**(15,633)**	(13,368)
Net increase / (decrease) in cash and cash equivalents		**20,229**	(23,638)	**2,897**	(30,994)
Cash and cash equivalents at the beginning of the year		**142,404**	174,753	**107,606**	145,616
Effects of exchange rate changes on cash and cash equivalents		**(13,273)**	(8,711)	**(8,623)**	(7,016)
Cash and cash equivalents at end of year	11	**149,360**	142,404	**101,880**	107,606

The above Consolidated Statement of Cash Flow should be read in conjunction with the accompanying notes on pages 13 – 47

Notes to the Consolidated Financial Statements

For the year ended 30 June 2011

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 ("NZX") and Australian Stock Exchanges ("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 2011 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 23 August 2011.

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

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

Basis of measurement

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: Convertible Bond, shares held in Pan Pacific Petroleum NL, Coal Option Contract.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD or $), 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 most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration and production assets, the recoverability of the investment in Pike River Coal Limited (In Receivership) (PRCL) shares, the recoverability of the convertible bond and short term facility issued to PRCL, the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation 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 18 and 19)

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 25)

The key assumptions concerning the recoverability of deferred tax assets is the certainty of entities in the Group to generate future taxable income. (Refer to note 26)

The assumptions required to be made in order to assess the recoverability of the investment in PRCL shares, the recoverability of the convertible bond and short term facility issued to PRCL include an assessment of a range of scenarios and includes a best estimate of recovery using a range of applied probabilities to the estimated future cash flows. (Refer to notes 12, 14, 16 and 22)

(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 15)

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.

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

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.

For acquisitions on or after 1 January 2010, the Group will measure goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

For acquisitions between 1 January 2004 and 1 January 2010:

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represented the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

(ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. (Refer to note 16)

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

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

(iii) Oil and gas joint ventures

Oil and gas joint ventures are those entities established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the ventures 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 functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in 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.

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 a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular 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 statement of comprehensive income and held in the revaluation reserve. When an investment is derecognised, the cumulative gain or loss in the revaluation reserve is transferred to the income statement.

Trade and other receivables

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

Convertible Bond

Issued convertible bonds are stated at the assessed fair value with movements in fair value being recognised in the income statement.

Interest bearing borrowings

Interest bearing borrowings are classified as other liabilities and are subsequently measured at amortised cost using the effective interest rate method.

Trade and other payables

Trade and other payables are stated at cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank, short term deposits and deposits at call with an original maturity of three months or less. Cash also includes the Group's share of cash held in oil and gas joint ventures and restricted cash held under the Group's interest bearing borrowing arrangements.

Other

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

(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.

Cash flow hedges

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

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

Economic hedges

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

Separable embedded derivatives

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

(iii) Share capital

Ordinary shares

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

(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.

Exploration and evaluation expenditure are impaired 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 technical feasibility and commercial viability of an area of interest, exploration and evaluation assets for the area of interest are 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.

(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.

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.

(G) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

Leasehold improvements	13 years
Furniture and fittings	4-10 years
Computer hardware and technical equipment	2-6 years

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

(H) Intangible assets

(i) Goodwill

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

(ii) Computer software

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

(I) Inventories

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

(J) Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the 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 2J(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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed.

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

(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.

(K) 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.

(L) 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.

(M) Provisions

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

(i) Make good provision

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

(ii) Restoration and rehabilitation provision

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

(N) Borrowing costs

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

(O) 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.

(P) Leased assets

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

The corresponding rental obligations, net of finance charges, are included in other long-term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

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

(Q) Finance income and expenses

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 expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of 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.

(R) 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 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.

(S) Royalties expense

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

(T) Earnings per share

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

(U) 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 ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles and liabilities off total assets as presented at the end of the reporting period.

(V) 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 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.

(W) 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 are 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 are determined by the use of a valuation technique.

The fair value of equity options are measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historic volatility), life of the equity option, expected dividend yield, and the risk free interest rate.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk free interest rate (based on government bonds).

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.

(X) Standards, amendments, and interpretations effective in 2011

The Group has adopted the following new and amended New Zealand equivalents to International Financial Reporting Standards:

- *NZ IFRS 2, Share Based Payments – Group cash settled share based payment transactions (Amendment)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IFRS 3 Business Combinations (Improvements to IFRSs 2010)* – (adopted from 1 July 2010)
- *NZ IFRS 5, Non Current Assets Held for Sale and Discontinued Operations (Improvements to NZ IFRSs 2009)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IFRS 8, Operating Segments (Improvements to IFRSs 2009)* – (adopted from 1 July 2010)
- *NZ IFRS 9 (2009), Financial Instruments* – (adopted from 1 July 2010)
- *NZ IAS 1, Presentation of Financial Statements (Improvements to NZ IFRSs 2009)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IAS 7, Statement of Cash Flows (Improvements to NZ IFRSs 2009)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IAS 27, Consolidated and Separate Financial Statements (Improvements to IFRSs 2010)* – (adopted from 1 July 2010)
- *NZ IAS 32, Financial Instruments: Presentation – Classification of Rights Issues (Amendment)* – (effective from annual periods beginning on or after 1 February 2010)
- *NZ IAS 36, Impairment of Assets (Improvements to NZ IFRSs 2009)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IAS 39, Financial Instruments: Recognition and Measurement (Improvements to NZ IFRSs 2009)* – (effective from annual periods beginning on or after 1 January 2010)
- *NZ IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* – (effective from annual periods beginning on or after 1 July 2010)

(Y) 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 Company's accounting periods beginning after 1 July 2010 or later periods but which the Company has not early adopted:

- *NZ IAS 24, Related Party Disclosures (revised 2009)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IFRS 7, Financial Instruments: Disclosures (Improvements to IFRSs 2010)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IAS 1, Presentation of Financial Statements (Improvements to IFRSs 2010)* – (effective from annual periods beginning on or after 1 January 2011)
- *NZ IFRS 7, Financial Instruments: Disclosures – Transfer of financial assets (Amendments)* – (effective from annual periods beginning on or after 1 July 2011)
- *NZ IAS 12, Income Taxes (Amendment) – Deferred Tax: Recovery of Underlying Assets* – (effective from annual periods beginning on or after 1 January 2012)
- *NZ IAS 1, Presentation of Financial Statements (Amendments) – Presentation of Items of Other Comprehensive Income* – (effective from annual periods beginning on or after 1 July 2012)
- *NZ IFRS 9, Financial Instruments (2010)* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 10, Consolidated Financial Statements* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 11, Joint Arrangements* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 12, Disclosure of Interests in Other Entities* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IFRS 13, Fair Value Measurement* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IAS 27, Separate Financial Statements (2011)* – (effective from annual periods beginning on or after 1 January 2013)
- *NZ IAS 28, Investments in Associates and Joint Ventures (2011)* – (effective from annual periods beginning on or after 1 January 2013)

(Z) Changes in accounting policies

(i) Adoption of NZ IFRS 9

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2010 other than the early adoption of NZ IFRS 9 (2009), Financial Instruments (and its accompanying amendments to other NZ IFRS) which has been adopted effective from 1 July 2010.

NZ IFRS 9 (2009) applies only to financial assets and specifies that financial assets should be measured at either amortised cost or fair value on the basis of both the business model for managing the financial asset and the nature of any contractual cash flows. At the date of initial application, 1 July 2010, the adoption has the following effect on the classification of the material financial assets of the Group:

	Previous classification	New classification	Carrying amount under NZ IAS 39	Carrying amount under NZ IFRS 9
Convertible Bond – fixed interest	Loans and receivables	Fair value through profit or loss (as a single instrument)	36,016	39,933
Convertible Bond – equity option	Derivative – held for trading	Fair value through profit or loss (not separated and aggregated into a single financial asset)	3,917	n/a
Investment in Pan Pacific Petroleum NL	Available for sale	Fair value through other comprehensive income	18,923	18,923

The adoption of NZ IFRS 9 has had not affected the classification of financial assets by the Parent.

The new accounting policies for these assets are as follows:

Financial assets at fair value through other comprehensive income

Investments in equity instruments are held at fair value through other comprehensive income when an irrevocable election to do this is made at initial recognition. Such assets are measured upon initial recognition at fair value. Subsequent fair value movements are presented in other comprehensive income and recognised in the revaluation reserve. Dividends on investments held at fair value through other comprehensive income, are recognised in profit or loss when the right to receive payment is established, unless the dividend represents a return of capital. If the investment is derecognised the cumulative gain or loss may be transferred within equity reserves.

Financial assets at Fair Value through Profit or Loss

Financial assets that are not classified and measured at amortised cost, or designated at fair value through other comprehensive income, are classified as fair value through profit or loss.

As allowed by the transitional provisions of NZ IFRS 9, the Group has elected not to retrospectively apply this standard and as such has not restated the prior periods.

(ii) Restatement of comparatives

A restatement has been made to the 2010 Group comparative figures to correct the treatment of the unwinding of the discount relating to the restoration and rehabilitation provision. In previous years a total of $2.6 million relating to the unwinding of the discount was capitalised to the production and development oil and gas assets rather than being recognised as an expense in the income statement.

The restatement of the comparatives corrects the accounting treatment to recognise the unwinding of discount on the restoration and rehabilitation provision in the income statements under ‘finance costs’.

	Original 30 June 2010 $000	Restated 30 June 2010 $000	Restatement $000
Impact on restated Statement of Financial Position			
Oil and gas asset - development	-	-	-
Oil and gas asset - production	257,673	253,917	(3,756)
Net deferred tax liabilities	(24,265)	(23,137)	1,128
Retained Earnings	(101,795)	(99,166)	2,629
Impact on restated Income Statement			
Finance costs	(11,276)	(12,211)	(935)
Income tax expense	(926)	(645)	281
Profit/(loss) for the year	(3,255)	(3,909)	(654)

	Original 30 June 2010 $000	Restated 30 June 2010 $000	Restatement $000
Impact on restated Statement of Financial Position			
Oil and gas asset - development	207,140	205,544	(1,596)
Oil and gas asset - production	35,141	33,916	(1,225)
Net deferred tax liabilities	(23,170)	(22,323)	847
Retained Earnings	(124,029)	(122,054)	1,975

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: Production and sale of crude oil in Petroleum Mining Permit (PMP) 38158 located in the offshore Taranaki basin, New Zealand.

Kupe Field: Production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in Petroleum Mining License (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 and in Tunisia.

Investments

Investments held by the Group are in resource companies listed on the New Zealand and Australian stock exchanges. At balance date the investments held were in Pike River Coal Limited (In Receivership) and Pan Pacific Petroleum NL.

Other and unallocated

This segment comprises corporate costs and incidental costs of the Group.

No operating segments have been aggregated to form the above reportable segments.

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 the Tunisian prospecting permit.

2011	Oil and Gas assets Tui $'000	Oil and Gas assets Kupe $'000	Exploration $'000	Investments $'000	Other and unallocated $'000	Total $'000
Sales to external customers – NZ	-	32,504	-	-	-	32,504
Sales to external customers – other countries	40,140	33,829	-	-	-	73,969
Total sales revenue	40,140	66,333	-	-	-	106,473
Other income	-	1,353	-	-	1,077	2,430
Total revenue and other income	40,140	67,686	-	-	1,077	108,903
Segment result	16,433	29,607	(3,434)	(92,379)	(9,981)	(59,754)
Other reconciling items Net finance income/(costs)						(10,854)
Profit/(loss) before income tax						(70,608)
Income tax (expense)/benefit						(5,279)
Profit/(loss) for the year						(75,887)
Segment assets	23,689	208,890	7,322	62,765	-	302,666
Other reconciling items						164,307
Total assets						466,973
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	-	-	-
Included in the segment result:						
Depreciation and amortisation expense	3,335	18,839	-	-	228	22,402
Impairment of loan to related party	-	-	-	(14,550)	-	(14,550)
Impairment of investment in associate	-	-	-	(77,088)	-	(77,088)

Restated * 2010	Oil and Gas assets Tui $'000	Oil and Gas assets Kupe $'000	Exploration $'000	Investments $'000	Other and unallocated $'000	Total $'000
Sales to external customers – NZ	-	15,331	-	-	-	15,331
Sales to external customers – other countries	67,915	16,128	-	-	-	84,043
Total sales revenue	67,915	31,459	-	-	-	99,374
Other income	-	-	-	-	736	736
Total revenue and other income	67,915	31,459	-	-	736	100,110
Segment result	44,038	16,075	(30,697)	(11,470)	(11,262)	6,684
Other reconciling items – Net finance income/(costs)						(9,948)
Profit/(loss) before income tax						(3,264)
Income tax (expense)/benefit						(645)
Profit/(loss) for the year						(3,909)
Segment assets (Restated)	27,727	226,190	6,641	136,665	-	397,223
Other reconciling items						165,724
Total assets						562,947
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	77,088	-	77,088
Included in the segment result:						
Depreciation and amortisation expense	5,856	9,518	-	-	294	15,668

* See changes in accounting policy note 2(Z)(ii)

4. Income

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revenue				
Petroleum sales	**106,473**	99,374	**-**	-
Total revenue	**106,473**	99,374	**-**	-
Other income				
Rental income	**137**	136	**87**	77
Carbon emission expenditure recovered	**1,353**	-	**-**	-
Other income	**940**	600	**696**	600
Total other income	**2,430**	736	**783**	677
Total income	**108,903**	100,110	**783**	677

5. Operating costs

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Production and sales marketing costs	**20,875**	15,234	**-**	-
Amortisation of production asset	**22,175**	15,376	**-**	-
Repairs and maintenance	**8,352**	-	**-**	-
Carbon emission expenditure	**1,983**	-	**-**	-
Insurance expenditure	**1,608**	1,297	**-**	-
Movement in inventory	**(603)**	597	**-**	-
Movement in stock over/(under) lift	**(585)**	597	**-**	-
Total operating costs	**53,805**	33,101	**-**	-

6. Other expenses

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Classification of other expenses by nature				
Audit fees	**139**	125	**130**	125
Directors' fees	**487**	541	**487**	541
Legal fees	**244**	137	**218**	136
Consultants' fees	**1,523**	1,727	**1,443**	1,708
Employee expenses	**4,674**	4,289	**4,674**	4,289
Depreciation	**100**	102	**100**	102
Amortisation of Intangible assets	**128**	192	**128**	192
Share based payment expense	**488**	368	**488**	368
Loss on dilution of investment in associate	**-**	144	**-**	-
Donations	**500**	-	**-**	-
Other	**2,775**	3,076	**2,777**	2,840
Total other expenses	**11,058**	10,701	**10,445**	10,301

Donations during the year represented a $500,000 contribution to the Pike River Disaster Relief Trust.

	Group		Parent	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Remuneration of auditors				
Auditors' remuneration to KPMG comprises:				
Audit and review of financial statements	**139**	125	**130**	125
Non audit related services:				
Tax compliance services	**97**	142	**97**	142
Tax advisory services	**329**	69	**329**	69
	426	211	**426**	211
Other assurance services	**32**	12	**32**	12
Total remuneration of auditors	**597**	348	**588**	348

Other assurance services include providing assurance services at the annual general meeting of the Company and providing accounting technical advice.

7. Net finance income/(costs)

	Group		Parent	
	2011 $'000	Restated * 2010 $'000	2011 $'000	2010 $'000
Finance costs				
Interest and finance charges	**(4,077)**	(1,831)	**-**	-
Exchange losses on foreign currency balances	**(11,005)**	(8,010)	**(8,623)**	(7,015)
Impairment of loan to related party-principal**(note 12)	**(13,000)**	-	**-**	-
Impairment of loan to related party–interest**(note 12)	**(1,550)**	-	**-**	-
Fair value adjustment of financial asset** (note 22)	**(742)**	-	**-**	-
Impairment of investment in associate** (note 16)	**(77,088)**	-	**-**	-
Net fair value loss on convertible bond** (note 14)	**(6,399)**	-	**-**	-
Net fair value loss on derivatives	**-**	(1,576)	**-**	-
Impairment of related party loans and investment in subsidiaries	**-**	-	**96,618**	6,738
Expiry and settlement of derivatives	**-**	(794)	**-**	-
Total finance costs	**(113,861)**	(12,211)	**(105,241)**	(13,753)
Finance income				
Interest income	**10,614**	2,263	**1,396**	1,768
Exchange gains on foreign currency balances	**14**	-	**-**	-
Net gain on available for sale financial assets	**-**	-	**-**	773
Dividend income	**-**	-	**17,926**	10,346
Total finance income	**10,628**	2,263	**19,322**	12,887
Net finance income/(costs)	**(103,233)**	(9,948)	**(85,919)**	(866)

* See changes in accounting policy note 2(Z)(ii)

** These items relate to the Group's investment in and loans to Pike River Coal Limited (PRCL) which was placed into receivership on 13 December 2010 at the request of its directors. This followed the tragic events triggered by the explosion at the mine on 19 November 2010. Further details on the Group's investment in and loans to PRCL are contained in notes 12, 14, 16 and 22.

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.

9. Income tax expense

	GROUP		PARENT	
		Restated *		
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
(a) Income tax expense				
Current tax	**-**	-	**-**	-
Deferred tax (Refer note 26)	**4,751**	760	**(2,897)**	302
Under/(over) provided in prior years	**528**	(115)	**-**	-
Total income tax expense	**5,279**	645	**(2,897)**	302
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	**(62,627)**	4,193	**(95,581)**	(10,490)
Less: royalties expense	**(7,981)**	(7,457)	**-**	-
Profit/(loss) before income tax expense	**(70,608)**	(3,264)	**(95,581)**	(10,490)
Tax at the New Zealand tax rate of 30% (2010 30%)	**(21,182)**	(980)	**(28,674)**	(3,147)
Tax effect of change in tax rate	**(2,237)**	(1,856)	**(99)**	-
Tax effect of amounts which are not deductible/(taxable):				
Share of associates losses	**-**	3,441	**-**	-
Foreign exchange adjustments	**(1,141)**	(451)	**-**	-
Impairment of financial assets	**27,027**	-	**-**	-
Dividends from wholly owned subsidiaries	**-**	-	**(5,378)**	(3,104)
Impairment of related party loans and investment in subsidiaries	**-**	-	**28,985**	-
Other expenses/(income)	**1,001**	453	**154**	1,938
	3,468	607	**(5,012)**	(4,313)
Under/(over) provision in prior years	**1,811**	38	**(3,689)**	-
Losses utilised/(transferred)	**-**	-	**5,804**	4,615
	1,811	38	**2,115**	4,615
Income tax expense/(benefit)	**5,279**	645	**(2,897)**	302

On 27 May 2010, the Taxation (Budget Measures) Act 2010 was given royal assent meaning that for the 2011/12 income tax year the New Zealand company tax rate changed from 30% to 28%. The effect of the reduction in the tax rate on the measurement of deferred tax assets and liabilities has been shown in the table above.

* See changes in accounting policy note 2(Z)(ii)

10. Imputation credits

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Imputation credit account				
Balance at beginning of year	**15,044**	21,290	**204**	3,567
Tax payments, net of refunds	**-**	1,550	**-**	-
Credits attached to dividend distributions	**(7,675)**	(7,796)	**(7,675)**	(7,796)
Credits attached to dividends received	**-**	-	**7,683**	4,433
Balance at end of year	**7,369**	15,044	**212**	204

11. Cash and cash equivalents

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Cash at bank and in hand	**24,167**	22,661	**25**	685
Deposits at call	**25,452**	17,913	**2,114**	7,156
Short term deposits	**99,741**	101,830	**99,741**	99,765
Total cash and cash equivalents	**149,360**	142,404	**101,880**	107,606

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $70.1 million denominated in US dollars; NZ dollar equivalent $85.1 million (2010: US dollars $52 million; NZ dollar equivalent $75 million).

(a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.1% and 3.7% (2010: 0.1% and 4.6%).

(b) Restriction of use

Included in cash and cash equivalents is:

Cash held in respect of the Kupe project facility of $19.5 million (2010: $17.5 million) at balance date may not be used for general working capital requirements, except after meeting interest, principal repayment and other terms of the Kupe project finance facility with Westpac Banking Corporation.

A cash deposit of US$4.6 million (NZ dollar equivalent $5.6 million) is held in escrow by Commonwealth Bank of Australia as security for a Letter of Credit Facility provided by the bank.

12. Receivables and prepayments

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Net trade receivables				
Trade receivables	**6,371**	19,563	**121**	-
Interest receivable	**6,097**	251	**187**	251
Less: Provision for doubtful receivables *	**(1,550)**	-	**-**	-
	10,918	19,814	**308**	251
Advances to related parties	**-**	-	**121,238**	203,288
Net receivables from related parties				
Short term loan facility to PRCL	**25,000**	-	**-**	-
Provision for doubtful receivables	**(13,000)**	-	**-**	-
	12,000	-	**-**	-
Other				
Prepayments	**714**	627	**58**	57
Other	**101**	352	**69**	929
Total receivables and prepayments	**23,733**	20,793	**121,673**	204,525

Trade receivables denominated in currencies other than the presentation currency comprise $2.3 million denominated in US dollars; NZ dollar equivalent $2.7 million (2010: $8.7 million denominated in US dollars; NZ dollar equivalent $12.6 million).

* This relates to interest on the unsecured component of the short term loan advance to Pike River Coal Limited (In Receivership).

Provision for impairment of short term loan facility to PRCL

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. This follows the tragic events triggered by the explosion at the mine on 19 November 2010. At the time of the explosion, $13.0 million was drawn, on an unsecured basis, under a $25.0 million short term loan facility to PRCL. The remaining $12.0 million was advanced to PRCL on a secured basis shortly after the explosion.

An impairment provision of $13.0 million has been made in respect of the unsecured portion of the $25.0 million short term loan advanced to PRCL and a further $1.6 million in respect of accrued interest for the period to 30 June 2011. No impairment provision has been made in respect of the $12.0 million secured portion of the short term loan and accrued interest of $1.3 million on this portion of the loan.

This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds. The key judgments and assumptions on which the position has been assessed include the outcome of the sales process of the mine and related assets, the conditionality of such sale, including the outcome of any due diligence performed by potential purchasers. Additionally, the findings of the Pike River Royal Commission of Inquiry into the cause of the explosion are yet to be determined and may impact on future recoveries.

While the Group considers it prudent to have made an impairment provision for all unsecured debt to PRCL given the uncertainty as to its recovery, it is noted that the Receivers' activities are directed towards an outcome where maximum value is recovered. While the Group has fully impaired the value of the unsecured portion of the short term loan and the equity investment in PRCL it should be further noted that under certain scenarios there is potential for recovery of some or all of the value of the short term loan and some equity.

The Group also has a secured Convertible Bond facility with PRCL (refer note 14).

The impairment loss recognised on the short term loan facility to PRCL has been included in 'net finance income/(expense)' in the income statement. The loss recognised on the accrued interest on this portion of the loan has been included in 'Finance costs' as an 'Impairment of loan to related party – interest' and recognised in the income statement.

13. Inventories

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Oil stock, at cost	**594**	107	**-**	-
LPG stock, at cost	**20**	33	**-**	-
Field operation consumerables, at cost	**254**	-	**-**	-
Emission units, at cost	**1**	-	**-**	-
Total inventories	**869**	140	**-**	-

14. Convertible Bond

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Current				
Convertible Bond – recoverable fair value	**35,103**	-	**-**	-
Non current				
Convertible Bond – fixed interest (amortised cost)	**-**	36,016	**-**	-
Convertible Bond – equity option	**-**	3,917	**-**	-
Total convertible bond	**35,103**	39,933	**-**	-

During the year ended 30 June 2010 the Group entered into an agreement with Pike River Coal Limited ("PRCL") to subscribe for a Convertible Bond with a face value of US$28.9 million. The facility in place is a first ranking secured debt that under the terms of a Deed of Priority and a Pari Passu Deed ranks equally with the loans issued by the BNZ (other than first ranking securities held by BNZ in respect of specific mining equipment) and any distribution of proceeds must be on a pro rata basis.

On 13 December 2010 PRCL was placed into receivership at the request of its directors. This follows the tragic events triggered by the explosion at the mine on 19 November 2010.

No impairment provision has been made in respect of the US$28.9 million Convertible Bond. The Group expects the Convertible Bond and accrued interest to be fully repaid from the sale of mine assets and insurance proceeds.

This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds as set out in note 12. While the Group expects the Convertible Bond to be fully repaid, the outcome of the Receivership remains uncertain at this stage in the sales process.

The Group also has a short term loan facility with PRCL (refer note 12).

On adoption of NZ IFRS 9 (2009) from 1 July 2010 the Convertible Bond in its entirety is recorded at fair value through profit or loss.

15. Investments in subsidiaries

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

Name of entity	Country of incorporation	Classes of shares	Equity holding 2011 %	Equity holding 2010 %
ANZ Resources Pty Limited	Australia	Ordinary	**100**	100
Australia and New Zealand Petroleum Limited	New Zealand	Ordinary	**100**	100
Kupe Royalties Limited	New Zealand	Ordinary	**100**	100
National Petroleum Limited	New Zealand	Ordinary	**100**	100
Nephrite Enterprises Limited	New Zealand	Ordinary	**100**	100
NZOG 38259 Limited	New Zealand	Ordinary	**100**	100
NZOG 38483 Limited	New Zealand	Ordinary	**100**	100
NZOG 38494 Limited	New Zealand	Ordinary	**100**	100
NZOG Canterbury Limited	New Zealand	Ordinary	**100**	100
NZOG Development Limited	New Zealand	Ordinary	**100**	100
NZOG Devon Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	**100**	-
NZOG Egmont Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	**100**	-
NZOG Energy Limited	New Zealand	Ordinary	**100**	100
NZOG Offshore Limited	New Zealand	Ordinary	**100**	100
NZOG Pacific Limited (Incorporated 16 September 2010)	New Zealand	Ordinary	**100**	-
NZOG Services Limited	New Zealand	Ordinary	**100**	100
NZOG Taranaki Limited	New Zealand	Ordinary	**100**	100
NZOG Tunisia Pty Limited (Incorporated 11 February 2011)	Australia	Ordinary	**100**	-
Oil Holdings Limited	New Zealand	Ordinary	**100**	100
Petroleum Resources Limited	New Zealand	Ordinary	**100**	100
Petroleum Equities Limited	New Zealand	Ordinary	**100**	100
Resource Equities Limited	New Zealand	Ordinary	**100**	100
Stewart Petroleum Company Limited	New Zealand	Ordinary	**100**	100
New Zealand Oil & Gas Employee Benefit Trust	New Zealand	Trustee	**-**	-

All subsidiary companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry.

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

- Stewart Petroleum Company Limited – United States dollars (USD)
- ANZ Resources Pty Limited – Australian dollars (AUD)
- NZOG Tunisia Pty Limited – Australian dollars (AUD)

16. Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Shares in associates	-	77,088	-	-

Name of company	Principal activity	Interest held by the consolidated group 2011	2010	Group carrying amount 2011 $'000	2010 $'000
Pike River Coal Limited (In Receivership)	Coal mining	29.4%	29.4%	-	77,088

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. The investment in PRCL was carried at the equity accounted value recognised by the Group at 30 June 2010 and based on a review of the available information, as previously referred to, has been impaired down to a nil value.

From the date of receivership the Group recognised that PRCL is no longer an associate investment and reclassified the investment as an investment asset carried at fair value. Due to the receivership there are no financial statements of the performance of PRCL to the date of receivership and as such no share of results has been taken up for the period.

The Group's holding in PRCL comprises 119.0 million ordinary shares.

(b) Movements in carrying amounts

	GROUP 2011 $'000	2010 $'000
Carrying amount at the beginning of the year	**77,088**	74,781
Share of net loss of associate	**-**	(11,470)
Loss on investment held in associate	**-**	(144)
Purchase of shares in associate	**-**	13,921
Impairment of investment in associate	**(77,088)**	-
Carrying amount at the end of the year	**-**	77,088

(c) Summarised financial information of associates (100% share)

	Group's share of: Assets $'000	Liabilities $'000	Revenues $'000	Profit/(Loss) $'000
2011				
Pike River Coal Limited (In Receivership)	-	-	-	-
2010				
Pike River Coal Limited	339,995	77,689	3,346	(39,028)

17. Interests in oil and gas joint ventures

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

Name of entity	Interests held by the Group 2011	2010
PML 38146 Kupe	**15.0%**	15.0%
PMP 38158 Tui	**12.5%**	12.5%
PEP 38483 Bahamas (i)	**-%**	18.9%
PEP 38259 – Barque (ii)	**40.0%**	40.0%
PEP 51311 Kaupokonui (iii)	**100.0%**	100.0%
PEP 51321 Kahurangi (iv)	**18.9%**	18.9%
PEP 38401 Hoki (v)	**-%**	10.0%
PEP 38491 – Albacore	**100.0%**	40.0%
PEP 51988 – Mangaa	**100.0%**	100.0%
PEP 51558 Kanuka (vi)	**20.0%**	-%
Prospecting Permit Diodore (Tunisia) (vii)	**100.0%**	-%

(i) PEP 38483 (Bahamas) was relinquished in January 2011.

(ii) In December 2010 a request to change the conditions of PEP 38259 (Barque) in respect of drill commitment dates was made to the Minister of Energy. The change to the drill commitment date is awaiting approval by the Minister of Energy.

(iii) NZOG has entered into a farm-out agreement with Raisama Limited which will reduce NZOG's interest in PEP 51311 (Kaupokonui) to 90%, subject to final conditions being met and the subsequent approval of the Minister of Energy.

(iv) A notice to surrender the full permit area of PEP 51321 (Kahurangi) was submitted to the Minister of Energy during the year. The Minister of Energy approved the surrender on the 15 July 2011.

(v) PEP 38401 (Hoki) was relinquished in November 2010.

(vi) An application to increase the direct interest in PEP 51558 (Kanuka) to 50% was submitted to the Minister of Energy during May 2011, with the withdrawal of partners in the permit area.

(vii) Tunisia prospecting permit (Diodore) was awarded 15 June 2011.

	GROUP	
	2011 $'000	2010 $'000
Share of oil and gas joint ventures' assets and liabilities		
Cash and cash equivalents	**3,635**	6,547
Trade receivables *	**738**	2,453
Inventory	**868**	139
Petroleum interests **	**299,500**	298,522
Total assets	**304,741**	307,661
Current liabilities	**5,510**	11,678
Non current liabilities	**-**	-
Total liabilities	**5,510**	11,678
Net assets	**299,231**	295,983
Share of oil and gas joint ventures' revenue, expenses and results		
Revenues *	**94**	355
Expenses	**(21,926)**	(44,814)
Profit before income tax	**(21,832)**	(44,459)

* Revenue receivable from Tui and Kupe petroleum sales (see Note 4) is not included as it is earned directly by wholly owned subsidiaries that hold the permit interests.

** Prior to amortisation of production assets.

18. Exploration and evaluation assets

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Opening balance	**6,641**	5,236	**4,430**	2,968
Expenditure capitalised	**4,334**	32,044	**90**	1,462
Revaluation of USD exploration and evaluation assets	**(219)**	58	**-**	-
Expenditure written off	**(3,434)**	(30,697)	**-**	-
Transfer of exploration interest to wholly owned subsidiaries	**-**	-	**(4,520)**	-
Closing balance	**7,322**	6,641	**-**	4,430

19. Oil and gas assets

(a) Development assets

	GROUP		PARENT	
	2011 $'000	Restated * 2010 $'000	2011 $'000	2010 $'000
Opening balance	**-**	207,140	**-**	-
Prior period adjustment	**-**	(1,596)	**-**	-
Restated opening balance	**-**	205,544	**-**	-
Expenditure capitalised	**-**	27,747	**-**	-
Borrowing costs capitalised	**-**	1,210	**-**	-
Expiry of commodity premium	**-**	(410)	**-**	-
Commissioning revenue and expenditure capitalised	**-**	(573)	**-**	-
Transferred to production assets	**-**	(233,518)	**-**	-
Closing balance	**-**	-	**-**	-

(b) Production assets

	GROUP		PARENT	
	2011 $'000	Restated * 2010 $'000	2011 $'000	2010 $'000
Opening balance	**253,917**	35,141	**-**	-
Prior period adjustment	**-**	(1,225)	**-**	-
Restated opening balance	**253,917**	33,916	**-**	-
Expenditure capitalised	**1,622**	1,462	**-**	-
Amortisation for the year	**(22,175)**	(15,376)	**-**	-
Revaluation of USD production assets	**(4,217)**	(2,453)	**-**	-
Expiry of commodity premium	**-**	(383)	**-**	-
Abandonment provision	**3,432**	3,233	**-**	-
Transfer from development assets	**-**	233,518	**-**	-
Closing balance	**232,579**	253,917	**-**	-
Includes capitalised borrowing costs of $10.5 million at 30 June 2011 (2010: $11.7 million).				
Total oil and gas assets	**232,579**	253,917	**-**	-

* See changes in accounting policy – note 2(Z)(ii)

20. Property, plant and equipment

GROUP AND PARENT	Land and Leasehold improvement $'000	Fixtures and fittings $'000	Computer Hardware and Technical Equipment $'000	Total $'000
At 1 July 2009				
Cost	145	134	288	567
Accumulated depreciation	(25)	(58)	(239)	(322)
Net book value	120	76	49	245
Year ended 30 June 2010				
Opening net book value	120	76	49	245
Additions	81	12	100	193
Depreciation charge	(18)	(19)	(65)	(102)
Closing net book value	183	69	84	336
At 30 June 2010				
Cost	226	144	337	707
Accumulated depreciation	(43)	(75)	(253)	(371)
Net book value	183	69	84	336
Opening net book value	183	69	84	336
Additions	6	6	33	45
Depreciation charge	(19)	(17)	(64)	(100)
Closing net book value	170	58	53	281
At 30 June 2011				
Cost	232	150	370	752
Accumulated depreciation	(62)	(92)	(317)	(471)
Net book value	170	58	53	281

21. Intangible assets

	Computer software	
GROUP AND PARENT	2011 $'000	2010 $'000
At 1 July		
Intangible assets (at cost)	**781**	528
Less: Accumulated amortisation	**(615)**	(423)
Net book value	**166**	105
Movement		
Opening net book value	**166**	105
Additions	**3**	253
Amortisation charge	**(128)**	(192)
Closing net book value	**41**	166
At 30 June		
Intangible assets (at cost)	**784**	781
Less: Accumulated amortisation	**(743)**	(615)
Net book value	**41**	166

22. Other financial assets

	GROUP 2011 $'000	GROUP 2010 $'000	PARENT 2011 $'000	PARENT 2010 $'000
Pan Pacific Petroleum NL – Shares:				
Available for sale financial assets	**-**	18,923	**-**	-
Investment assets (fair value through other comprehensive income)	**15,662**	-	**-**	-
	15,662	18,923	**-**	-
Pike River Coal Limited (In Receivership) (PRCL) financial assets:				
Shares	**-**	-	**-**	-
Coal Contract Option *	**-**	721	**-**	-
	-	721	**-**	-
Other				
Investment in subsidiaries (note 15)	**-**	-	**50,171**	66,716
Refundable security deposits	**43**	43	**-**	-
Total other financial assets	**15,705**	19,687	**50,171**	66,716

* Coal option contract classified as available for sale asset in 2010 and fair value through other comprehensive income in 2011.

(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 reporting date of $15.7 million and is classified as an investment asset at fair value in accordance with NZ IFRS 9 (2009) (previously classified as available for sale financial asset). 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. Under the previous standard, NZ IAS 39, the Group was required to determine whether investments were impaired, with any impairment being recognised through profit or loss. No such impairment existed at the date of initial application of NZ IFRS 9 (2009). Under NZ IFRS 9 (2009) there is no requirement to determine if investments are impaired, with all gains and losses being recognised in other comprehensive income.

Accordingly, the previous available for sale reserve of $4.12 million has been transferred to a Revaluation Reserve. The cost of this investment was the equivalent of NZ$21.6 million (US$17.8 million) and is held by Stewart Petroleum Co Limited.

Shares held in Pike River Coal Limited (In Receivership)

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership at the request of its directors. This followed the tragic events triggered by the explosion at the Pike mine on 19 November 2010. From the date of receivership the Group recognised that PRCL is no longer an associate investment and reclassified the investment as a financial asset at fair value through profit or loss. This transfer occurred at the estimated fair value which was nil. The Group's holding in PRCL comprises 119.0 million ordinary shares.

Prior to reclassifying the shares in PRCL as a financial asset held at fair value through profit or loss the associate investment was fully impaired. This position was reached after discussions with the Receivers, review of a range of scenarios of potential outcomes from the PRCL Receivership and consideration of a best estimate of the likely recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds. While the Group has recognised a loss based on a best estimate of the discounted value of expected future cash flows, the outcome of the receivership is highly uncertain at this time and significant changes in the assessment of recoveries may occur in subsequent reporting periods.

The impairment loss recognised on the shares and options has been included in 'net finance income/(expense)' in the income statement.

Coal Contract Option with Pike River Coal Limited (In Receivership)

The coal contract option issued by PRCL was reclassified as fair value through other comprehensive income on adoption of NZ IFRS 9. The Group has determined the coal contract option is fully impaired as at 30 June 2011 with the fair value movement to nil income statement (30 June 2010: NZ$0.7 million available for sale asset). The cost of the coal contract option to the group was NZ$0.7 million (US$0.5 million).

The fair value adjustment recognised on the coal contract option has been included in 'net finance income/(expense)' in the income statement.

(b) 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 license work programme commitments being met.

23. Payables

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Trade payables	**6,372**	12,472	**726**	588
Employee entitlements	**284**	286	**284**	286
Accrued expenses	**1,647**	572	**598**	404
Interest payable	**413**	289	**-**	-
Royalties payable	**6,211**	6,497	**-**	-
Stock overlift liability	**13**	598	**-**	-
Other payables	**379**	83	**83**	83
Total payables	**15,319**	20,797	**1,691**	1,361

Payables denominated in currencies other than the presentation currency comprise $0.7 million of payables denominated in US dollars; NZ dollar equivalent $0.9 million. (2010: US dollars $3.5 million; NZ dollar equivalent $5.2 million)

24. Borrowings

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Secured – Current				
Bank loans	**14,644**	3,217	**-**	-
Secured – Non current				
Bank loans	**48,680**	59,588	**-**	-
Total borrowings	**63,324**	62,805	**-**	-

Further information relating to maturity dates and contractual repayment terms of the borrowings is set out in note 31.

Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui Area Oil Fields. At 30 June 2011 the Letter of Credit facility was US$4.6 million (30 June 2010: US$5.9 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility for the Tui Area Oil Fields is secured over the Group's assets other than those primarily relating to the Kupe, investments in Pike River Coal Limited (In Receivership), and a number of exploration assets.

At 30 June 2011 the Group has a project facility in respect of Kupe of NZ$63 million with Westpac Banking Corporation that was fully drawn.

The Kupe project facility is secured over the Group's Kupe assets. The facility is repaid progressively over the life until the facility is fully repaid by 31 March 2015.

25. Restoration and rehabilitation provision

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Restoration and rehabilitation provision	**15,715**	11,998	**-**	-
Total restoration and rehabilitation provisions	**15,715**	11,998	**-**	-

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.

Movements in provisions

	GROUP	
	2011 $'000	**2010 $'000**
Carrying amount at start of year	**11,998**	8,144
Addition/(reduction) in provisions recognised	**3,432**	3,273
Revaluation of USD provisions	**(1,035)**	(354)
Unwinding of discount *	**1,320**	935
Carrying amount at end of year	**15,715**	11,998

* See changes in accounting policy – note 2(Z)(ii)

26. Deferred tax assets and liabilities

	GROUP		PARENT	
	2011 $'000	**Restated * 2010 $'000**	**2011 $'000**	**2010 $'000**
The balance comprises temporary differences attributable to:				
Deferred tax assets				
Non deductible provisions	**4,400**	3,360	**-**	-
Tax losses	**1,675**	3,697	**1,675**	-
Other items	**602**	367	**81**	188
Total deferred tax assets	**6,677**	7,424	**1,756**	188
Deferred tax liabilities				
Exploration assets	**(2,157)**	(1,992)	**-**	(1,329)
Oil and gas assets	**(29,751)**	(25,255)	**-**	-
Capitalised borrowing costs	**(2,945)**	(3,307)	**-**	-
Other financial assets	**-**	(7)	**-**	-
Total deferred tax liabilities	**(34,853)**	(30,561)	**-**	(1,329)
Net deferred tax asset/(liabilities)	**(28,176)**	(23,137)	**1,756**	(1,141)
Movements:				
Net deferred tax asset/(liability) at 1 July	**(23,137)**	(23,170)	**(1,141)**	(839)
Prior period adjustment	**-**	847	**-**	-
Restated net deferred tax asset/(liability at 1 July	**(23,137)**	(22,323)	**(1,141)**	(839)
Charged/(credited) to the income statement (note 9)	**(4,751)**	(760)	**2,897**	(302)
Foreign exchange differences	**(288)**	(54)	**-**	-
Closing balance at 30 June	**(28,176)**	(23,137)	**1,756**	(1,141)

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.

* See changes in accounting policy – note 2(Z)(ii)

27. Contributed equity of the Group and Parent

(a) Share capital

	2011 Number of Shares 000s	2010 Number of Shares 000s	2011 $'000	2010 $'000
Ordinary shares				
Fully paid shares	**392,114**	389,093	**358,178**	353,697
Partly paid shares	**5,470**	4,415	**55**	44
	397,584	393,508	**358,233**	353,741

(b) Movements in ordinary share capital:

	2011 Number of Shares 000s	2010 Number of Shares 000s	2011 $'000	2010 $'000
Opening	**393,508**	387,858	**353,741**	347,192
Issues of ordinary shares during the year				
Shares issued	**5,236**	3,919	**6,622**	6,263
Buy back of issued shares	**(2,585)**	-	**(2,517)**	-
Partly paid paid shares issued	**1,425**	1,731	**387**	286
Closing balance of ordinary shares issued	**397,584**	393,508	**358,233**	353,741

(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

Information relating to the employee share ownership plan (ESOP), including details of shares issued under the scheme, is set out in note 33.

Partly paid shares issued by the company to participants of the 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.

28. Reserves

(a) Reserves

	GROUP		PARENT	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Revaluation reserve	**(4,267)**	-	**-**	-
Available for sale financial asset reserve	**-**	(4,117)	**-**	-
Share based payments reserve	**699**	366	**699**	366
Foreign currency translation reserve	**(14,198)**	(4,946)	**-**	-
Share revaluation reserve	**-**	-	**6,465**	6,465
Total reserves	**(17,766)**	(8,697)	**7,164**	6,831
Movements:				
Revaluation reserve				
Balance 1 July	**-**	-	**-**	-
Transferred on 1 July 2010 from available for sale reserve on adoption of NZ IFRS 9	**(4,117)**	-	**-**	-
Fair value loss through other comprehensive income	**(150)**	-	**-**	-
Balance 30 June	**(4,267)**	-	**-**	-
Available for sale financial asset reserve				
Balance 1 July	**(4,117)**	21,279	**-**	-
Fair value gain/(loss) on available for sale financial assets for the year	**-**	(25,396)	**-**	-
Transferred available for sale reserve to revaluation reserve on 1 July 2010	**4,117**	-	**-**	-
Balance 30 June	**-**	(4,117)	**-**	-
Share based payments reserve				
Balance 1 July	**366**	278	**366**	278
Share based payment expense for the year	**488**	368	**488**	368
Transfer of expired share based payments during the year	**(155)**	(280)	**(155)**	(280)
Balance 30 June	**699**	366	**699**	366
Foreign currency translation reserve				
Balance 1 July	**(4,946)**	4,014	**-**	-
Foreign currency translation differences for the year	**(9,252)**	(8,960)	**-**	-
Balance 30 June	**(14,198)**	(4,946)	**-**	-
Share revaluation reserve				
Balance 1 July	**-**	-	**6,465**	6,465
Balance 30 June	**-**	-	**6,465**	6,465

(b) Nature and purpose of reserves

(i) Previous Available for sale reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL and the coal contract option with Pike River Coal Limited (In Receivership) that were classified as available for sale assets. The reserve represents changes in the fair value of the investment from the original cost. Amounts are recognised in the income statement when the associated assets are sold or impaired.

(ii) Revaluation reserve

This reserve relates to the residual reserve held in respect to the Pan Pacific Petroleum NL investment as at 1 July 2010 on adoption of NZ IFRS 9 which was reclassified to Revaluation Reserve.

(iii) 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 Stewart Petroleum Company Limited (USD), ANZ Resources Pty Limited (AUD) and NZOG Tunisia Pty Limited (AUD). Stewart Petroleum Company Limited holds the Tui asset and the investment in Pan Pacific Petroleum NL. The reserve is recognised in the income statement when the net investment is disposed of.

(iv) 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.

29. Earnings per share

	GROUP	
	2011 Cents	Restated * 2010 Cents
(a) Basic earnings per share		
Basic earnings per share	**(19.1)**	(0.8)
(b) Diluted earnings per share		
Diluted earnings per share	**(19.1)**	(0.8)

(c) Reconciliations of earnings used in calculating earnings per share

	GROUP	
	2011 $'000	Restated * 2010 $'000
Profit/(loss) for the year	**(75,887)**	(3,909)
Profit attributed to non controlling interest	**-**	-
Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	**(75,887)**	(3,909)

(d) Weighted average number of shares used as the denominator

	GROUP	
	2011 Number 000s	2010 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	**397,451**	392,052
Adjustments for calculation of diluted earnings per share:		
Options	**-**	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**397,451**	392,052

* See changes in accounting policy – note 2(Z)(ii)

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

	GROUP		PARENT	
	2011 $'000	Restated * 2010 $'000	2011 $'000	2010 $'000
Profit/(loss) for the year	**(75,887)**	(3,909)	**(92,684)**	(10,792)
Depreciation and amortisation	**22,403**	15,670	**228**	294
Deferred tax	**4,751**	760	**(2,897)**	302
Net fair value loss on convertible bonds	**6,399**	1,576	**-**	-
Fair value adjustment of financial asset	**742**	-	**-**	-
Impairment of loan to related party – principal	**13,000**	-	**-**	-
Impairment of loan to related party – interest	**1,550**	-	**-**	-
Impairment of investment in associate	**77,088**	-	**-**	-
Loss/(gain) on investment held in associate	**-**	144	**-**	-
Exploration and evaluation costs expensed	**3,434**	30,697	**-**	-
Impairment of related party loans and investment in subsidiaries	**-**	-	**96,618**	6,738
Share of net loss of associate	**-**	11,470	**-**	-
Share based payment expense	**488**	368	**488**	368
Net foreign exchange differences	**11,005**	8,010	**8,623**	7,015
Non cash dividend	**-**	-	**(17,926)**	(10,346)
Other	**249**	1,362	**-**	(773)
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**9,270**	(7,343)	**43**	(835)
Increase/(decrease) in trade creditors	**(5,890)**	(11,410)	**611**	354
Net cash inflow from operating activities	**68,602**	47,395	**(6,896)**	(7,675)

* See changes in accounting policy – note 2(Z)(ii)

31. 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, convertible bond, 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 11, 12, 14, and 23.

(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 borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

(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 a convertible bond issued to Pike River Coal Limited (In Receivership).

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 is exposed to a significant credit risk through its convertible bond and short term loan to Pike River Coal Limited (In Receivership). This exposure is disclosed in notes 12 and 14.

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

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 and debt facilities in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all 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 2011						
Secured borrowings – principal and interest *	3,817	12,967	19,365	32,947	-	69,096
Payables	15,319	-	-	-	-	15,319
Total non derivative liabilities	19,136	12,967	19,365	32,947	-	84,415
30 June 2010						
Secured borrowings – principal and interest *	1,654	3,441	16,887	47,277	-	69,259
Payables	20,797	-	-	-	-	20,797
Total non derivative liabilities	22,451	3,441	16,887	47,277	-	90,056

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 2011						
Payables	1,691	-	-	-	-	1,691
Total non derivative liabilities	1,691	-	-	-	-	1,691
30 June 2010						
Payables	1,361	-	-	-	-	1,361
Total non derivative liabilities	1,361	-	-	-	-	1,361

* The Group has a project finance facility which is secured over the Group's Kupe assets. The facility was drawn to $63.3 million at 30 June 2011 and is due to be progressively repaid over the period to expiry of the facility on 31 March 2015. The facility limit is determined by a borrowing base calculation which is updated every six months. The above repayment schedule is based on current borrowing base calculations. The borrowing base is subject to variation based on future operating performance of the Kupe field and changes in reserves and product pricing assumptions.

(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 31(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 balance date would be to decrease the Group profit before tax by $4.8 million and decrease the foreign currency translation reserve in equity by $1.1 million (2010: $4.8 million decrease on profit before tax and $0.7 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 $1.5 million (2010: $1.4 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 $0.8 million (2010: $0.9 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.

Derivative contracts classified as fair value through profit and loss are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

(g) Fair value estimation

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

Effective 1 July 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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 2011	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Convertible Bond – recoverable fair value	-	-	35,103	35,103
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	15,705	-	-	15,705
Coal Option Contract	-	-	-	-
Total assets measured at fair value	15,705	-	35,103	50,808

GROUP – At 30 June 2010	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Convertible Bond equity option	-	-	3,917	3,917
Available for sale financial assets	-	-	-	-
Shares held in Pan Pacific Petroleum NL	18,923	-	-	18,923
Coal Option Contract	-	-	721	721
Total assets measured at fair value	18,923	-	4,638	23,561

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet 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 available for sale financial assets.

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.

Specific valuation techniques used to value financial instruments include:

- In 2010 the fair value of the equity option component of the convertible bond with Pike River Coal Limited (In Receivership) was valued using the Black Scholes option valuation method. This valuation technique uses both observable and unobservable market inputs. The valuation of the equity option takes into account the exercise price on maturity, the term of the Convertible Bond, the conversion price at valuation date, expected price volatility of the underlying shares, the expected dividend yield and the risk free interest rate. The unobservable market inputs used for the valuation are the expected volatility that is based on historic volatility of the Pike River Coal Limited share price and the expected dividend yield.
- In 2010 the fair value of the coal contract option with Pike River Coal Limited (In Receivership) has been recognised with reference to an independent consultancy report commissioned by Pike River Coal Limited. The coal option was valued in the report based on the determination of what an active market participant may pay to acquire such an option. The valuation used two methodologies in determining the valuation; (a) valuation based on recent market transactions, and (b) valuation based on future coal price "protection".
- In 2011 the fair value of the Convertible Bond with Pike River Coal Limited (In Receivership) was valued based on the best estimate of recoverable value by applying a range of probabilities to the estimated future cash flows from the sale of mine assets and insurance proceeds.

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

GROUP – At 30 June 2011	Coal Option Contract $'000	Convertible Bond – equity option $'000	Convertible Bond – recoverable fair value $'000	Total $'000
Opening balance	721	3,917	-	4,638
Purchases	-	-	-	-
Gains/(losses) recognised in Other Comprehensive Income	-	-	-	-
Gains/(losses) recognised on settlement date in the Income Statement	-	-	-	-
Gains/(losses) recognised in the Income Statement	(721)	(3,917)	-	(4,638)
Transfer from loans and receivables	-	-	35,103	35,103
Closing balance	-	-	35,103	35,103
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	(721)	(3,917)	-	(4,638)

GROUP – At 30 June 2010	Coal Option Contract $'000	Convertible Bond equity option $'000	Total $'000
Opening balance	-	-	-
Purchases	742	5,303	6,045
Gains/(losses) recognised in Other Comprehensive Income	(21)	-	(21)
Gains/(losses) recognised on settlement date in the Income Statement	-	1,970	1,970
Gains/(losses) recognised in the Income Statement	-	(3,356)	(3,356)
Closing balance	721	3,917	4,638
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	-	(1,386)	(1,386)

(h) Financial instruments by category

GROUP	Fair value through profit or loss $'000	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2011				
Assets				
Cash and cash equivalents	-	-	149,360	149,360
Receivables	-	-	23,019	23,019
Convertible bond	35,103	-	-	35,103
Other financial assets	-	15,662	43	15,705
	35,103	15,662	172,421	223,186
Liabilities				
Payables	-	-	15,319	15,319
Borrowings	-	-	63,324	63,324
	-	-	78,643	78,643

GROUP	Held for trading $'000	Available for sale financial asset $'000	Loans and receivables $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2010					
Assets					
Cash and cash equivalents	-	-	142,404	-	142,404
Receivables	-	-	20,167	-	20,167
Convertible bond	3,917	-	36,016	-	39,933
Other financial assets	-	19,644	43	-	19,687
	3,917	19,644	198,630	-	222,191
Liabilities					
Payables	-	-	-	20,797	20,797
Borrowings	-	-	-	62,805	62,805
	-	-	-	83,602	83,602

The Group and Parent early adopted NZ IFRS 9 (2009) Financial Instruments effective from 1 July 2010 which reduced the number classifications of financial assets.

PARENT	Amortised cost $'000	Total carrying value $'000
At 30 June 2011		
Assets		
Cash and cash equivalents	101,880	101,880
Receivables and advances to related parties	121,615	121,615
	223,495	223,495
Liabilities		
Payables	1,692	1,692
	1,692	1,692

PARENT	Loans and receivables $'000	Amortised cost $'000	Total carrying value $'000
At 30 June 2010			
Assets			
Cash and cash equivalents	107,606	-	107,606
Receivables and advances to related parties	204,468	-	204,468
	312,074	-	312,074
Liabilities			
Payables	-	1,361	1,361
	-	1,361	1,361

The Group and Parent early adopted NZ IFRS 9 (2009) Financial Instruments effective from 1 July 2010 which reduced the number classifications of financial assets.

32. 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: A R Radford; R F Meyer (Retired on 27 October 2010); P G Foley; P W Griffiths; A T N Knight; S J Rawson; D J Salisbury; and D R Scoffham.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2011 and 30 June 2010 is set out below. The key management personnel are all the management and directors (executive and non executive) 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
2011						
Management	**1,851**	**-**	**-**	**-**	**185**	**2,036**
Directors	**1,185**	**-**	**-**	**-**	**120**	**1,305**
	3,036	**-**	**-**	**-**	**305**	**3,341**
2010						
Management	1,616	-	-	-	96	1,712
Directors	1,025	-	-	-	166	1,191
	2,641	-	-	-	262	2,903

(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, are 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 33.

Mr A R Radford and Prof R F Meyer were during the year ended 30 June 2011 directors of Pike River Coal Limited (In Receivership) (PRCL), which was an associate company until the date of its receivership on 13 December 2010. Mr A R Radford resigned as a director of PRCL during the year. Details of transactions with PRCL during the year are set out in (e) below.

Mr A R Radford is a director of and 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.

A company associated with Mr S J Rawson provided consulting services to the Group during the reporting year to the value of $9,000 in relation advice on the exploration and production industry. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

A company associated with Mr A T N Knight provided consulting services to the Group during the reporting period to the value of $95,000 in relation to PRCL financing matters. Amounts were billed based on normal market rates for such services and were due and payable under normal payment terms.

(e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in note 12, 14, 15, 16, 17 and 22 as subsidiaries, joint ventures and associates.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured, except for the outstanding balances from PRCL noted below.

During the year ended 30 June 2011 the Group had the following transactions with associate PRCL.

Short Term Funding

The Group provided short term funding to PRCL, on commercial terms, of NZ$25 million with $12 million being advanced as secured debt. At 30 June 2011 the full facility remains outstanding. The Group earned NZ$3.5 million during the year from fees and interest on the short term facility. At 30 June 2011 NZ$2.8 million of accrued interest is outstanding with a provision for doubtful debts of $1.6 million relating to the unsecured component of the debt. Refer to notes 7 and 12 for details of impairments of unsecured components of the loan and interest accrued.

Convertible Bond

During the year to 30 June 2011 the Group earned US$3.2 million of interest and NZ$0.7 million of facility fees on the US$28.9 million convertible bond facility that was fully drawn by PRCL in May 2010. At 30 June 2011, US$2.5 million of the interest earned and NZ$0.7 million of facility fees were outstanding.

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

33. 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 Executive Appointments and Remuneration Committee. The Executive Appointments 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.

Grant Date	Final date	Exercise price	Balance at start of the year 000s	Issued during the period 000s	Sold during the period 000s	Forfeited during the period 000s	Balance at end of the year 000s	Fully vested at end of the year 000s
28 Nov 2005	28 Nov 2010	$1.14	75.0	-	(75.0)	-	-	-
7 Mar 2006	20 Jan 2011	$1.09	200.0	-	-	(200.0)	-	-
18 Jul 2006	18 Jul 2011	$1.20	25.0	-	-	-	25.0	25.0
31 Jul 2006	31 Jul 2011	$1.21	45.0	-	-	-	45.0	45.0
1 Aug 2006	1 Aug 2011	$1.19	75.0	-	-	-	75.0	75.0
19 Sep 2006	19 Sep 2011	$1.08	100.0	-	-	-	100.0	100.0
25 Jan 2007	20 Jan 2011	$1.00	20.0	-	-	(20.0)	-	-
25 Jan 2007	18 Jul 2011	$1.00	2.5	-	-	-	2.5	2.5
25 Jan 2007	19 Sep 2011	$1.00	10.0	-	-	-	10.0	10.0
25 Jan 2007	1 Aug 2011	$1.00	7.5	-	-	-	7.5	7.5
02 Apr 2007	02 Apr 2012	$1.06	500.0	-	-	-	500.0	500.0
17 Sep 2007	16 Aug 2012	$1.23	100.0	-	-	-	100.0	100.0
08 Oct 2007	08 Oct 2012	$1.22	75.0	-	(75.0)	-	-	-
05 Nov 2007	05 Nov 2012	$1.26	150.0	-	-	-	150.0	150.0
12 Nov 2007	12 Nov 2012	$1.26	200.0	-	-	-	200.0	200.0
24 Nov 2007	24 Nov 2012	$1.28	600.0	-	-	-	600.0	600.0
30 Oct 2008	30 Oct 2013	$1.43	400.0	-	-	-	400.0	400.0
12 Jan 2009	12 Jan 2014	$1.53	100.0	-	-	-	100.0	100.0
30 Jul 2009	2 Mar 2014	$1.57	200.0	-	-	-	200.0	200.0
30 Jul 2009	14 Apr 2014	$1.67	300.0	-	-	-	300.0	300.0
30 Jul 2009	15 Jun 2014	$1.87	150.0	-	-	-	150.0	150.0
30 Jul 2009	23 Jun 2014	$1.91	200.0	-	-	-	200.0	200.0
10 Nov 2009	12 Oct 2014	$1.72	300.0	-	-	-	300.0	-
5 Nov 2009	2 Nov 2014	$2.04	200.0	-	-	-	200.0	-
24 Dec 2009	24 Nov 2014	$2.04	230.0	-	-	-	230.0	-
13 Jan 2010	23 Nov 2014	$2.04	150.0	-	-	-	150.0	-
7 Sep 2010	7 Sep 2015	$1.44	-	1,225.0	-	-	1,225.0	-
12 Nov 2010	18 Oct 2015	$1.58	-	50.0	-	-	50.0	-
9 Dec 2010	23 Nov 2015	$1.52	-	150.0	-	-	150.0	-
			4,415.0	1,425.0	(150.0)	(220.0)	5,470.0	3,165.0
Weighted average exercise price			$1.47	$1.45	$1.18	$1.08	$1.49	$1.38

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 2011 was 7 cents to 25 cents per share (30 June 2010 was 33 cents to 41 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2011, 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 – $1.28

(d) expected price volatility of the company's shares: 40%

(e) expected gross dividend per share: 5.6% – 8.3%

(f) risk free interest rate on the issue date: 3.17% – 3.18%

The expected price volatility is based on the historic volatility.

34. Commitments and contingent assets & 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	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Within one year	**339**	388	**339**	388
Later than one year and not later than five years	**1,355**	-	**1,355**	-
Later than five years	**308**	-	**308**	-
	2,002	388	**2,002**	388

During the year ended 30 June 2011 $384,000 was recognised as an expense in the income statement in respect of operating leases (2010: $384,000).

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$14.3 million.

(c) Kupe overriding royalty interest

The Group has an overriding royalty in relation to production from the Kupe field. As at balance date the Group was in dispute with the parties that have an obligation to pay the overriding royalty with respect to the basis of the calculation. At balance date the Kupe overriding royalty interest was a contingent asset as a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

(d) Pike River Coal Limited (In Receivership) (PRCL)

NZOG wholly owned subsidiary NZOG 38483 Limited has provided two indemnities in favour of the Receivers in connection with the receivership of PRCL. The first indemnity, given on appointment, essentially covers liability suffered by the Receivers due to any defect in their appointment. The second indemnity, given at the time of handover of the PRCL mine by NZ Police to the Receivers, indemnifies the Receivers in respect of all costs and liability incurred in implementation of the Mine Stabilisation Plan dated 17 January 2010. Despite the above indemnities, the Receivers have a priority entitlement to claim their costs and liabilities against the assets of PRCL and in fact, to date, all of their costs have been so satisfied.

At balance date the indemnities provided to the receivers of PRCL are contingent liabilities.

(e) Other contingent liabilities

As at 30 June 2011 the Company had no other contingent liabilities (2010:$Nil).

Auditors' 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 7 to 47. The financial statements comprise the statements of financial position as at 30 June 2011, the income statements and 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 Financial 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 and general accounting services. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 7 to 47:

- 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 2011 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

23 August 2011
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/corporategovernance.

The number of Directors is specified in the constitution as a minimum of three and up to a maximum of seven. The 2009 Annual Meeting passed a resolution allowing for a 12 month temporary increase in the number of Directors to eight to assist with succession planning. Mr Peter Griffiths was appointed a Director on 1 December 2009 and Professor Ray Meyer retired from the Board at the 2010 Annual Meeting, held on 27 October 2010. The number of Directors has been seven since that date.

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
Mr A R Radford ACA	June 1981	Chairman (Independent)	Resource company management
Mr P G Foley BCA, LLB	July 2000	(Independent)	Legal and finance
Mr P W Griffiths BSc (Hons)	December 2009	(Independent)	Energy operations and finance
Mr A T N Knight BMS (Hons) CA(NZ)	January 2008	(Independent)	Energy operations and finance
Mr S J Rawson BSc, MSc	July 2000	(Independent)	Energy and trading
Mr D J Salisbury BCA, LLB	April 2007	CEO and Managing Director	Worldwide oil & gas exploration
Mr D R Scoffham MA, MSc	June 2003	(Independent)	Worldwide oil & gas exploration

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 2011, Mr P G Foley, Mr P W Griffiths, Mr A T N Knight, Mr A R Radford, Mr S J Rawson and Mr D R Scoffham are independent Directors. Mr D J Salisbury is not an independent Director because of his executive role.

Mr Foley is a partner at law firm Minter Ellison Rudd Watts, to which the Company paid $48,685 for legal services in the financial year. The Board has determined that this relationship is immaterial for the purpose of determining independence from the perspective of both the Company and the relevant Director.

Mr Knight is a shareholder and director of Watchman Capital, which was engaged during the year in relation to Pike River Coal financing matters. Fees of $95,139 were paid under this consultancy services agreement. The Board has determined that this relationship is immaterial for the purpose of determining independence from the perspective of both the Company and the relevant Director.

Mr Rawson is a shareholder and director of Roil Ltd, which was engaged to undertake a consulting assignment in April 2011 and was paid fees of $9,375 for this work. The Board has determined that this relationship is immaterial for the purpose of determining independence from the perspective of both the Company and the relevant Director.

BOARD PROCEEDINGS

The Board meets on a formal scheduled monthly basis, 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, the Managing Director prepares an Operations Report that includes a Health, Safety and Environment report, a summary of the Company's exploration, development and production operations, a summary of new venture projects and opportunities, 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 judgment is achieved and maintained in respect of its decision making, the Board has adopted a number of processes which include the following:

- Directors are entitled to seek independent professional advice at the Company's expense; 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.

BOARD COMMITTEES

The Board has two formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, and the Executive Appointments and Remuneration 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/corporategovernance.

It is the Board's policy that all committees should be chaired by a non-executive Director and should comprise a majority of non-executive Directors.

The Audit Committee is required to contain at least one member with an accounting or financial background. The Board has determined that Mr Foley and Mr Knight each have the requisite financial background for this requirement.

As at 30 June 2011, the members of the Audit Committee were Mr Foley (Chairman), Mr Griffiths, Mr Knight and Mr Scoffham. The Committee is responsible to the Board for overseeing the financial and internal controls, financial reporting, and audit practices of the Company. The Committee also oversees any trading in securities by Directors or employees. 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, including a prohibition on any transaction which has the effect of limiting the risk of participating in unvested entitlements. Meetings of the Audit Committee are held at least twice a year. At the discretion of the Committee the external auditors, the Managing Director, the Chief Financial Officer and other senior executives attend these meetings. 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.

The members of the Executive Appointments and Remuneration Committee as at 30 June 2011 were Mr Griffiths (Chairman), Mr Foley and Mr Knight. The Committee is responsible to the Board for recommending the remuneration policies and packages for the Chief Executive and appointees to the management team, and allocations of partly-paid shares under the employee share ownership plan (ESOP) and amendments to ESOP rules. The Committee operates independently of management and executive Directors.

The Board does not have a separate nominations committee. As outlined in the Board Charter, the Board as a whole undertakes the responsibility for the recruitment and appointment of Directors.

The Board's policy is to:

- comply with the NZSX Rules for inviting Director nominations from security holders; and
- undertake an annual review of Board membership to ensure its composition and the skills and experiences of its members meet the Company's ongoing requirements.

MEETING ATTENDANCE:

Director	Board Meeting	Audit Committee	Executive Appointments & Remuneration Committee
Mr A R Radford	12 of 13		
Prof R F Meyer*	4 of 4		1 of 1
Mr P G Foley#	8 of 8	1 of 1	2 of 2
Mr P W Griffiths	10 of 13	3 of 3	1 of 1
Mr A T N Knight	12 of 13	3 of 3	2 of 2
Mr S J Rawson	12 of 13		
Mr D J Salisbury	13 of 13		
Mr D R Scoffham	13 of 13	1 of 3	

* Prof. Meyer retired from the Board in October 2010.

\# Mr Foley sought and was granted leave of absence from the NZOG Board from 19 November 2010 to 27 April 2011 due to potential conflicts of interest with his role as a principal adviser to Pike River Coal Limited over this period.

BOARD PERFORMANCE AND EVALUATION

The Board has a policy of conducting an annual review of its performance, the performance of its committees, and the performance of individual Directors. A questionnaire is submitted to Directors. Responses in respect of the performance of the Board and committees are collated and reviewed by the Board to guide performance improvement. 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 and Director performance in the previous period.

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;
- evaluating the performance of the Chief Executive;
- reviewing the performance of senior management;
- setting broad remuneration policy including approving allocations under the Company's employee share ownership plan;
- 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;
- 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 NZOG 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 Managing Director 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
- 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

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

Health and Safety Policy

The Company is firmly committed to the provision and progressive improvement of a safe and healthy work environment. The Company's Health and Safety Policy has the overriding objective that everyone who works with NZOG should return home in good mental and physical health.

NZOG's HSE Policy is to:

- provide a safe and healthy work environment;
- prevent exposure to unnecessary risks and to operate in a way that minimises health and safety hazards;
- actively monitor and continuously improve health and safety performance; and
- encourage safe and healthy lifestyles.

The full Health and Safety Policy is available on the Company's website at www.nzog.com/corporategovernance.

Environment Policy

The Company is firmly committed to conducting its business in an environmentally responsible manner.

NZOG's Environment Policy is to:

- respect and protect the environment;
- avoid unnecessary risks and operate at all times in a way that minimises environmental hazards; and
- actively monitor and continuously improve environmental performance.

The full Environment Policy is available on the Company's website at www.nzog.com/corporategovernance.

Code of Business Conduct and Ethics

The Company's Code of Business Conduct and Ethics sets out the ethical standards 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 NZOG;
- comply fully with the content and spirit of all laws and regulations which govern the operations of NZOG, its business environment, and its employment practices;
- not knowingly participate in illegal or unethical activity;
- actively promote compliance with laws, rules, regulations, and NZOG's Code of Business Conduct and Ethics; and
- not do anything which would be likely to negatively affect NZOG's reputation.

The Code addresses in detail issues such as: conflicts of interest and corporate opportunities; protection and proper use of NZOG 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/corporategovernance.

Communications and Market Disclosure Policy

The Company complies with the continuous disclosure requirements and all other listing requirements of the NZX and ASX relating to shareholder reporting which enables the Company to ensure high quality and uniform disclosure of market sensitive information.

The Communications and Market Disclosure Policy is available on the Company's website at www.nzog.com/corporategovernance. Shareholders and interested parties can subscribe via the website to receive 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.

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/corporategovernance.

Diversity Policy

In accordance with new ASX recommendations, the Company now has a 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, ethnicity and cultural background. The Diversity Policy is available on the Company's website at www.nzog.com/corporategovernance.

Directors' Interests Policy

The Directors are required to recognise that the possibility of conflict of interest exists and are expected to declare 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.

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

Delegated Authorities Manual
The Board has established formal limits of authority to provide clarity to the Chief Executive and management so that they are in a position to carry out the business of the Company 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.

Remuneration and Performance Appraisal Policy
The objective of the Company's remuneration policy is to provide fair and competitive remuneration to its Board, executives and staff in order for the Company to benefit by attracting and retaining a high quality team.

At the 2008 NZOG Annual Meeting, shareholders approved a resolution that Directors' 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. Directors also participate in the NZOG Employee Share Ownership Plan as detailed in this Annual Report, but otherwise do not receive any performance based remuneration.

The Executive Appointments and Remuneration Committee is responsible for receiving and making recommendations on remuneration policies for the Managing Director 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 performance bonuses and share participation in accordance with the NZOG Employee Share Ownership Plan (as approved by shareholders). A performance evaluation of senior executives is performed annually by the Committee at the end of each financial year.

RECOGNISING AND MANAGING RISK

The Company has implemented a risk management framework designed to ensure that its principal risks are identified and mitigated or controlled, and that controls are adequate, in place and functioning effectively.

The Board is responsible for the overall risk management and control framework for the Company and fulfills its responsibilities in this regard by reviewing and monitoring financial and reporting matters, and the Company's risk management and internal control processes.

Responsibility for control and risk management is delegated to the appropriate level of management, with the Chief Executive and the Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management and internal control systems include:

- regular reporting to the Board and the Audit Committee in respect of operations, financial position, compliance requirements and risk assessment;
- periodic review by the Board of the Company's Risk Register;
- periodic review by the Board of the Company's Health, Safety and Environment Management System (HSE-MS);
- periodic review of the adequacy of the overall risk management framework; and
- periodic review of internal controls.

The Company's Chief Executive and Chief Financial Officer provide a written declaration to the Audit Committee for each six-month reporting period, stating that:

- the declaration given is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating effectively in relation to financial reporting risks.

The Company maintains effective internal control by ensuring compliance with documented internal control procedures.

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; and the ASX Listing Rules and Corporate Governance Best Practice Principles and Recommendations. The Company is compliant with these rules and guidelines except as otherwise noted below.

The Company does not encourage its Directors to take part of their remuneration by way of equity. However, Directors do participate in the NZOG Employee Share Ownership Plan as detailed in this Annual Report.

The Board has not established a separate nominations committee. The Board as a whole undertakes responsibility for the recruitment and appointment of Directors.

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 31 August 2011 New Zealand Oil & Gas Ltd had the following securities:

Listed Ordinary Shares:
392,113,944 shares
15,550 holders

Unlisted Partly Paid Shares:
5,470,000 shares
29 holders

TOP 20 SHAREHOLDERS

Top 20 registered holders of Ordinary Shares as at 31 August 2011:

	Name	Shares Held	% of Issued Capital
1.	Accident Compensation Corporation	31,648,977	8.07
2.	National Nominees (New Zealand) Ltd	22,158,880	5.65
3.	Resources Trust Ltd	11,730,812	2.99
4.	Citibank Nominees (New Zealand) Ltd	10,592,244	2.70
5.	NZ Guardian Trust Investment Nominees Ltd	9,562,841	2.44
6.	HSBC Nominees (New Zealand) Ltd	8,902,774	2.27
7.	AMP Investments Strategic Equity Growth Fund	7,799,923	1.99
8.	New Zealand Superannuation Fund	6,091,052	1.55
9.	Sik-On Chow	5,500,000	1.40
10.	Westpac NZ Shares 2002 Wholesale Trust	3,928,203	1.00
11.	Asteron Life Ltd	3,812,507	0.97
12.	Riuo Hauraki Ltd	3,690,541	0.94
13.	Tea Custodians Ltd	3,598,242	0.92
14.	NZGT Nominees Ltd	3,293,916	0.84
15.	NZPT Custodians (Grosvenor) Ltd	2,943,015	0.75
16.	Resources Nominees Ltd	2,909,358	0.74
17.	Leveraged Equities Finance Ltd	2,813,576	0.72
18.	FNZ Custodians Ltd	2,586,618	0.66
19.	BT NZ Unit Trust Nominees Ltd	2,542,805	0.65
20.	New Zealand Depository Nominee Ltd	2,479,601	0.63

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

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder Notices are received pursuant to the Securities Markets Act 1988. Shareholders with holdings of 5% or more are required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities.

On 27 June 2011 a Substantial Shareholder Notice was issued in respect of the Accident Compensation Corporation (ACC); recording that ACC held 7.401% of the Ordinary Shares in New Zealand Oil & Gas Ltd.

As at 31 August 2011 there were no other substantial shareholders with 5% or more of the Ordinary Shares (National Nominees Ltd is above 5% but holds the shares on behalf of a number of beneficial shareholders).

DISTRIBUTION OF SECURITY HOLDERS

As at 31 August 2011:

Number of Shares	Holders of Ordinary Shares	Holders of Partly Paid Shares
1 - 99	112	
100 - 199	53	
200 - 499	261	
500 - 999	1,871	
1,000 - 1,999	2,783	
2,000 - 4,999	3,617	
5,000 - 9,999	2,552	
10,000 - 49,999	3,464	2
50,000 - 99,999	429	5
100,000 - 499,999	341	21
500,000 - 999,999	29	
1,000,000 - 99,999,999	38	1
Total	**15,550**	**29**

On 31 August 2011 there were 426 holders with non-marketable parcels of shares as determined by the NZX (under 500 shares), and 2,250 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.

TRADING STATISTICS

For the 12 months ended 30 June 2011	High	Low	Volume
NZX (Trading Code NZO)	NZ$1.35 on 14/7/10	NZ$0.83 on 24/6/11	78,566,633
ASX (Trading Code NZO)	A$1.10 on 14/7/10	A$0.63 on 24/6/11	25,502,555

SHARE BUYBACK

A share buy-back scheme was announced by NZOG in September 2010, and was in place from 10 September 2010 until 30 June 2011. This involved a broker purchasing shares, within prescribed limits, on NZOG's behalf through the NZX market. The shares acquired were immediately cancelled.

The total number shares acquired and cancelled under the share buyback was 2,584,998; at an average price of NZ97c per share and a total cost (including brokerage) of NZ$2,517,124.

NZOG did not make any direct purchases from shareholders and the identity of the seller or sellers of the securities is not known to NZOG.

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors for services in all capacities during the year ended 30 June 2011 was:

Mr A R Radford	$154,500
Prof R F Meyer*	$29,167
Mr P G Foley	$51,921
Mr P W Griffiths	$64,584
Mr A T N Knight	$63,292
Mr S J Rawson	$62,000
Mr D J Salisbury#	$647,400
Mr D R Scoffham	$62,000

*Prof. Meyer retired from the Board in October 2010.

#Remuneration received as Chief Executive Officer.

DIRECTORS' SECURITIES INTERESTS

The interests of Directors in securities of the Company at 30 June 2011 were:

	Direct Interest	Indirect Interest
Mr P G Foley	78,050 ordinary shares	150,000 partly paid shares
Mr P W Griffiths	10,500 ordinary shares	150,000 partly paid shares
Mr A T N Knight	12,000 ordinary shares	150,000 partly paid shares
Mr A R Radford	998,768 ordinary shares	3,034,000 ordinary shares
Mr D J Salisbury		1,000,000 partly paid shares
Mr D R Scoffham	125,000 ordinary shares	150,000 partly paid shares and 80,757 ordinary shares
Mr S J Rawson	7,500 ordinary shares	150,000 partly paid shares

Changes to Directors' Securities Interests during the financial year were: Mr Foley acquired 5,050 ordinary shares; Mr Salisbury acquired 250,000 partly paid shares; and Mr Griffiths acquired 150,000 partly paid shares. Two million options to buy ordinary shares held by Mr Radford expired.

DIRECTORS' INTERESTS IN TRANSACTIONS

Directors' interests recorded in the Interests Register of the Company as at 30 June 2011 are detailed below. Notices given or adjusted during the financial year ended 30 June 2011 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 Pike River Coal Ltd (In Receivership)* Liquigas Ltd* Shell (Petroleum Mining) Ltd* Vector Ltd* National Provident Fund	Partner Legal Advisor Legal Advisor Legal Advisor Legal Advisor Member of Board of Trustees
Mr P W Griffiths	Civil Aviation Authority* Northland Port Corporation* Wanganui Gas Limited NZ Diving & Salvage Limited Greenstone Energy Limited	Deputy Chairman Director Director Director and shareholder Director
Mr A T N Knight	Powerco Limited Watchman Capital* Vector Ltd*	Director Director and shareholder Shareholder
Mr A R Radford	Pan Pacific Petroleum NL (and subsidiaries)	Director and shareholder
Mr D R Scoffham	Pan Pacific Petroleum NL*	Shareholder

Messers Foley, Salisbury, Scoffham, Rawson and Griffiths are shareholders of Pike River Coal Limited (in Receivership). Mr Radford resigned as a Director of Pike River Coal Ltd (in Receivership) effective 10 June 2011.

EMPLOYEES REMUNERATION

During the year ended 30 June 2011, 13 employees (excluding the Chief Executive) received individual remuneration over $100,000.

$130,001 - $140,000	2
$140,001 - $150,000	2
$170,001 - $180,000	1
$200,001 - $210,000	1
$290,001 - $300,000	2
$300,001 - $310,000	1
$310,001 - $320,000	2
$340,000 - $350,000	1
$390,001 - $400,000	1

OFFICERS' SECURITIES INTERESTS

The interests of Company Officers (excluding the Chief Executive) in securities of the Company at 30 June 2011 were:

Mac Beggs in respect of 400,000 unlisted partly paid shares.

Craig Jones in respect of 400,000 unlisted partly paid shares.

Ralph Noldan in respect of 20,583 ordinary shares and 300,000 unlisted partly paid shares.

Chris Roberts in respect of 10,000 ordinary shares and 200,000 unlisted partly paid shares.

DONATIONS

In December 2010, the Company made a donation of $500,000 to the Pike River Disaster Relief Trust.

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.

NZOG GROUP

Within this Annual Report reference to NZOG, New Zealand Oil & Gas Ltd and the Company are to be read as inclusive of the subsidiary companies within the consolidated group.

CURRENCY

All amounts are New Zealand dollars unless otherwise specified. The NZD/USD exchange rate was 0.823 as at 30 June 2011.

Corporate Directory

DIRECTORS

Tony Radford
Chairman
ACA, FAICD

Paul Foley
BCA, LLB

Peter Griffiths
BSc (Hons)

Andrew Knight
BMs (Hons), CA(NZ)

Steve Rawson
BSc, MSc

David Salisbury
Managing Director
BCA, LLB

David Scoffham
MA, MSc

MANAGEMENT

David Salisbury
CEO & Managing Director
BCA, LLB

Mac Beggs
Exploration Manager
BSc, MSc, PhD

Craig Jones
Chief Financial Officer and Company Secretary
BBus, FCPA, FCIS, ASIA

Ralph Noldan
General Counsel
BCA, CA(NZ), Dip Law (NSW)

Chris Roberts
Corporate Affairs Manager
BA, Dip.IR

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
New Zealand

SHARE REGISTRAR

NEW ZEALAND

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

Freephone: 0800 467 335 (within NZ)
Telephone: + 64 9 488 8777
Facsimile: + 64 9 488 8787

AUSTRALIA

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067

Freephone: 1800 501 366 (within Australia)
Telephone: + 61 3 9415 4083 (overseas)
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.computershare.co.nz/investorcentre

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

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


Sidi El Itayem
Sidi Behara
Gremda
El Ain
El Hajeb
Guebiba
Chaal 1
Mahares
Oil Fields
Gas Fields