InterimReport

For the six months ended 31 December 2010

Contents

CEO's Report

This report reviews a six month period which was dominated by one terrible event – the loss of 29 lives at the Pike River Coal mine.

NZOG is a 29.4% shareholder in Pike River Coal Limited (PRCL) and a secured and unsecured debt holder.

At the time of the mine explosion on 19 November 2010, which led to the tragic loss of 29 lives and the cessation of all mining and trading activities, PRCL was days away from implementing a $70 million capital raising. At PRCL's request, NZOG had provided a short-term working capital facility so that PRCL could meet its operating costs pending the completion of that capital raising. By 19 November 2010, PRCL had drawn $13 million under the facility. The explosion at the mine dramatically changed the situation.

On 26 November 2010, NZOG provided the balance of the short-term funding – $12 million. Without that cash injection PRCL would have been insolvent and unable to continue with the day-to-day activities of the business, including the rescue and recovery efforts at the mine. NZOG also donated $500,000 to the Pike River Miners' Relief Fund to support the families of the 29 men who so tragically lost their lives.

As the situation at the mine deteriorated with further explosions and no immediate prospect of re-entering the mine, the PRCL Board concluded that even with the funding support provided by NZOG, it could not avoid insolvency. At their request, NZOG acting in its capacity as a secured creditor put PRCL into receivership on 13 December 2010.

On 8 March 2011, the Receivers took over formal control of the mine site from the Police. The mine atmosphere has been stabilised but the mine remains too dangerous to enter. The Receivers are taking expert advice on the best way to proceed.

NZOG is a secured creditor in respect of a US$28.9 million convertible bond and the $12 million funding advanced on 26 November. No impairment has been taken against the secured debt.

NZOG is an unsecured creditor in respect of the $13 million short-term funding advanced prior to 19 November 2010. These monies rank equally with other unsecured creditors. An impairment provision has been taken against all of the unsecured debt.

NZOG's 29.4% shareholding in PRCL and holding of 2011 options, with a combined book value of $77.1 million, ranks equally with other shareholders. An impairment provision has been taken against all of this equity value.

While there is considerable uncertainty about the future for PRCL we expect to recover NZOG's secured debt. We are actively taking steps to maximise the value of our total PRCL investment and liaising closely with the Receivers.

Financial results

For the 6 months ended 31 December 2010, NZOG recorded total operating revenue of $40.5 million and a gross profit from operating activities of $3.1 million.

PRCL related impairment provisions of $98.6 million and unrealised after tax foreign exchange losses of $5.2 million contributed to NZOG reporting a net loss after tax for the six month period of $99.0 million.

NZOG had a total cash balance at 31 December 2010 of $111.8 million and a net cash position of $48.8 million.

NZOG's dividend policy since 2008 has been to pay a reasonable portion of profits as an annual dividend. As there is a substantial loss resulting from the Pike River Coal situation, the Board does not intend to pay a dividend for the 2010/11 financial year.

Kupe

The Kupe gas and oil field off the south Taranaki coast is now firmly established as NZOG's largest revenue source. The field began producing in December 2009, with permanent production commencing in March 2010.

In July 2010, following a detailed reserves review, the initial proved and probable (2P) reserves in the Kupe Field were increased. The initial 2P sales gas reserves increased by 8%, LPG reserves by 5% and light oil (condensate) reserves by 27%.

The light oil provides the greatest financial return of the three products, so confirmation that the field is more 'liquids-rich' than initially estimated was particularly significant.

In November 2010, a comprehensive inspection of the production station near Hawera, required within the first 12 months of operation, was successfully completed. The inspection required a three-week production shutdown.

NZOG's share of production for the six months to the end of December 2010 was 1.2 PJ of sales gas; 5,800 tonnes of LPG; and almost 143,000 barrels of light oil.

Kupe provided NZOG with $27.4 million in revenue for the six month period.

Tui

The Tui area oil fields in the offshore Taranaki Basin produced 1.36 million barrels in the six month period – NZOG's share 170,000 barrels.

For much of the period only three out of four wells were producing. In late June, it was identified that repairs were needed to the artificial lift system for the Pateke-3H well. These repairs were completed in October (at a net cost to NZOG of $8.5 million) and the well resumed production. In November, there was a one week shutdown of the floating production storage and offtake (FPSO) vessel, the Umuroa, to allow for maintenance and planned process modifications.

NZOG's revenue from Tui for the six month period was $13.1 million.

Exploration

NZOG remains committed to exploration as a key way of growing the company and replacing oil and gas reserves. We have been successful in adding to our New Zealand exploration acreage and in advancing prospect evaluation within existing holdings.

NZOG has built a dominant position in the relatively lightly explored northern offshore Taranaki Basin. We now have large holdings in three adjacent permits – Mangaa, Albacore and Parihaka. Recently, NZOG has agreed to acquire 100% of the Albacore permit and to increase our Parihaka stake from 20% to 50%. We are assessing the prospectivity across the three permits, including evaluation of horizons that are producing elsewhere in Taranaki but have to date not been thoroughly evaluated in northern offshore Taranaki.

In the southern offshore Taranaki basin, NZOG is looking to secure a rig for 2012 to drill the exciting Kaupokonui prospect, which has been assessed as having recoverable resources (un-risked) in excess of 200 million barrels of oil. A farm-in partner, Peak Oil and Gas Ltd, has a conditional agreement to take 10% of the permit in return for meeting 20% of the cost of the first well. Discussions with other companies interested in joining the Kaupokonui joint venture are continuing.

We are also working closely with our joint venture partners at Tui and Kupe to firm up exploration drilling targets within those permits. There are eight identified un-drilled prospects at Tui. At Kupe, there is the possibility of drilling one or two exploration wells in conjunction with scheduled Central Field development drilling in 2012/13.

In the Canterbury Basin, NZOG is expanding its presence by securing, as Operator, the Clipper permit. This lies immediately north of the Barque permit. NZOG has a 40% stake in both permits. Barque is a large gas-condensate prospect and NZOG has also identified another large structure which lies across both permits.

Future Outlook

New Zealand remains an attractive investment destination, but the number of available opportunities will always be limited. As a result we cannot be confident of meeting our growth objectives from New Zealand alone and our business strategy includes the goal of establishing one or two new core areas.

Since 2008 we have been carefully evaluating opportunities around the world. NZOG is now in the process of establishing a northern hemisphere presence.

We are in the final stages of acquiring attractive exploration acreage in a highly prospective region and we are planning to establish a small local office to allow other opportunities to be readily identified and assessed.

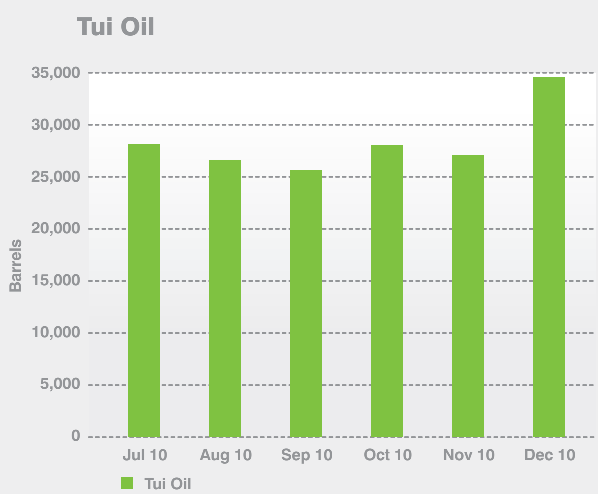
Details about the location and nature of the initial investment will be announced as soon as the final regulatory approval is granted.

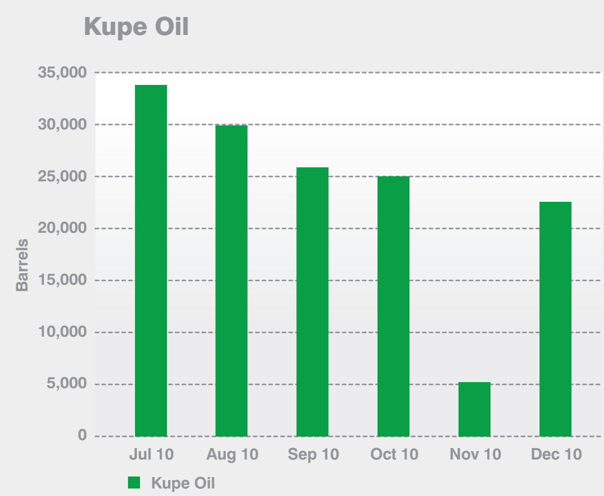
More generally, NZOG remains focused on growing its oil and gas business, recovering value from its PRCL interests and building shareholder value.

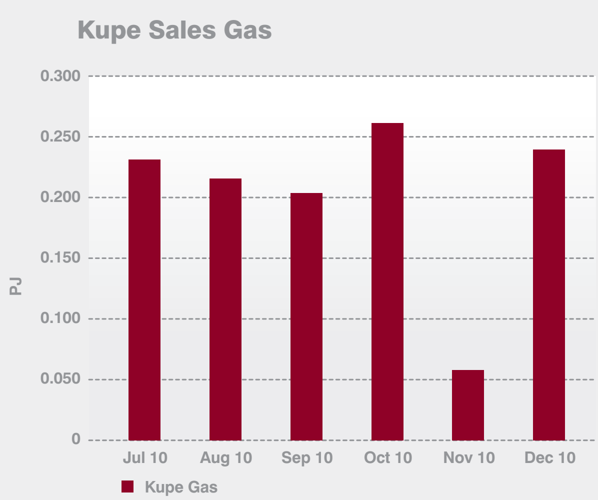
David Salisbury
Chief Executive

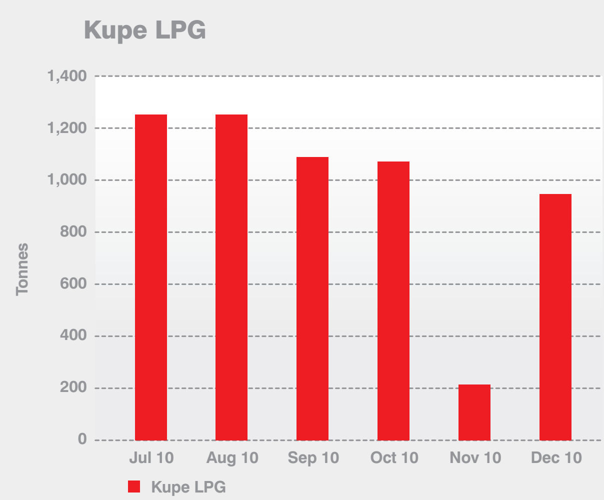
Production

NZOG Production July-December 2010





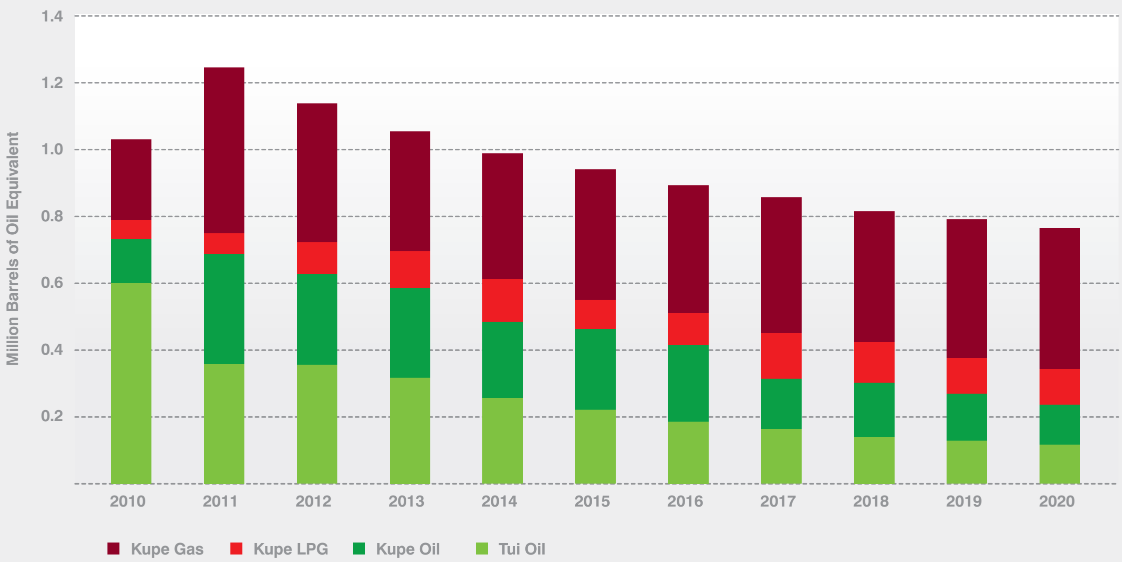




TUI PRODUCTION: Only three of the four wells were producing from July to October. In November, there was a one week shutdown of the facilities for maintenance and process modifications.

KUPE PRODUCTION: In November, the production station was shutdown for 3 weeks to allow for a regulatory inspection. The daily gas nominations by the gas buyer tend to be higher in the colder months, which also affect the oil and LPG production levels.

NZOG Production: Actual and Forecast



Oil and Gas Reserves

NZOG's remaining Proven and Probable (2P) Reserves as at 31 December 2010 were:

	Oil & Gas Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui	**2.6**			**2.6**
Kupe	**2.5**	**38**	**156**	**9.8**
Total				**12.4**

* 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.

NZOG's oil and gas reserves are reported in accordance with Section 10.11 of the NZX Listing Rules. This Reserves Statement has been compiled by NZOG's Reservoir Manager, Markus Schuh, who has a MSc. in Reservoir Engineering from Mining University, Leoben, Austria, and accurately reflects information supplied by the respective joint venture operators.

Permits

Permit	NZOG Stake
Taranaki Basin	
PMP 38158 Tui	12.5%
PML 38146 Kupe	15%
PEP 51311 Kaupokonui (Operator)	100% [1]
PEP 51988 Mangaa (Operator)	100%
PEP 38491 Albacore	44% [2]
PEP 51558 Parihaka	20% [3]
Canterbury Basin	
PEP 38259 Barque	40%
PEP 52717 Clipper (Operator)	40% [4]

1 Reducing to 90% under conditional farm-in agreement with Peak Oil and Gas Ltd
2 NZOG stake increasing to 100% subject to ministerial approval
3 NZOG stake increasing to 50% subject to ministerial approval
4 Subject to formal award of the permit

Share Buy-back

On 6 September 2010, NZOG announced a share buy-back scheme. It was considered that the share price was significantly below fair value and that a buy-back of shares was an opportunity to provide a return to shareholders in excess of NZOG's cost of capital.

Under the authorisation given by the NZOG Board, the maximum number of ordinary shares that can be acquired in the buy-back is 8,500,000. Purchases may occur from 10 September 2010 until 30 June 2011. The shares acquired are cancelled.

As at 31 December 2010, 766,215 ordinary shares had been acquired and cancelled under the share buy-back scheme; at an average price of NZ$1.19 per share and a total cost (including brokerage) of NZ$874,397.

In January 2011, a further 410,000 ordinary shares were acquired and cancelled; at an average price of NZ86.5c and a total cost (including brokerage) of NZ$354,680.

The identity of the seller or sellers of the securities is not known to NZOG.

Condensed Interim Financial Statements

For the half-year ended 31 December 2010

DIRECTORS' DECLARATION

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

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

(2) The financial statements for the six months to 31 December 2010 and notes to those financial statements give a true and fair view of the financial position and performance of the Company; and

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

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

P W Griffiths	**A T N Knight**
Director	Director
22 February 2010	22 February 2010

Condensed Statement of Income

For the half year ended 31 December 2010

	Notes	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Revenue	4	**40,482**	37,745	99,374
Operating costs	5	**(29,429)**	(9,283)	(31,804)
Gross profit		**11,053**	28,462	67,570
Other Income	4	**1,559**	182	736
Exploration and evaluation costs expensed	15	**(2,618)**	(10,918)	(30,697)
Other expenses	6	**(6,880)**	(5,086)	(11,998)
Result from operating activities		**3,114**	12,640	25,611
Finance costs		**(107,229)**	(14,720)	(11,276)
Finance income		**5,187**	566	2,263
Net finance income/(costs)	7	**(102,042)**	(14,154)	(9,013)
Share of loss from associates	13	**-**	(4,156)	(11,470)
Profit/(loss) before income tax and royalties		**(98,928)**	(5,670)	5,128
Royalties expense	8	**(2,201)**	(4,291)	(7,457)
Income tax (expense)/benefit		**2,179**	3,472	(926)
Profit/(loss) for the period		**(98,950)**	(6,489)	(3,255)
Profit/(loss) for the period attributable to:				
Equity holders of Parent		**(98,950)**	(6,489)	(3,255)
		(98,950)	(6,489)	(3,255)
		Cents	Cents	Cents
Earnings per share attributable to shareholders:				
Basic earnings per share	25	**(25.0)**	(1.7)	(0.8)
Diluted earnings per share	25	**(25.0)**	(1.7)	(0.8)
		Cents	Cents	Cents
Net Tangible Asset Backing per share		**82**	119	114

The above Condensed Statement of Income should be read with the accompanying notes on pages 14-31

Condensed Statement of Comprehensive Income

For the half year ended 31 December 2010

	Notes	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Profit/(loss) for the period		**(98,950)**	(6,489)	(3,255)
Other comprehensive income				
Fair value gain/(loss) on financial assets	21	**(3)**	-	-
Fair value gain/(loss) on available for sale financial assets	21	**-**	3,826	(25,396)
Foreign currency translation differences	21	**(5,423)**	(13,320)	(8,960)
Other comprehensive income for the period		**(5,426)**	(9,494)	(34,356)
Total comprehensive income for the period:				
Attributable to equity holders of the Parent		**(104,376)**	(15,983)	(37,611)

The above Condensed Statement of Comprehensive Income should be read with the accompanying notes on pages 14-31

Condensed Statement of Financial Position

As at 31 December 2010

	Notes	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
CURRENT ASSETS				
Cash and cash equivalents	9	**111,832**	176,405	142,404
Receivables and prepayments	10	**19,918**	10,909	20,794
Inventories		**1,516**	554	140
Current tax receivables		**1,582**	1,722	1,842
Total current assets		**134,848**	189,590	165,180
NON CURRENT ASSETS				
Convertible Bond	11	**33,968**	-	39,933
Investments in associates	13	**-**	70,756	77,088
Evaluation and exploration assets	15	**7,075**	7,802	6,641
Oil and gas assets	16	**244,401**	261,328	257,673
Property, plant and equipment		**308**	327	336
Intangible assets		**102**	240	166
Other financial assets	17	**17,097**	46,120	19,687
Total non current assets		**302,951**	386,573	401,524
Total assets		**437,799**	576,163	566,704
CURRENT LIABILITIES				
Payables	18	**12,619**	18,277	20,797
Borrowings	19	**2,150**	10,500	3,217
Derivative financial instruments		**-**	9	-
Total current liabilities		**14,769**	28,786	24,014
NON CURRENT LIABILITIES				
Borrowings	19	**60,945**	47,328	59,588
Restoration and rehabilitation provision		**11,712**	12,102	11,998
Net deferred tax liability		**21,173**	19,725	24,265
Total non current liabilities		**93,830**	79,155	95,851
Total liabilities		**108,599**	107,941	119,865
Net assets		**329,200**	468,222	446,839
EQUITY				
Share capital	20	**359,675**	353,679	353,741
Reserves	21	**(13,988)**	15,982	(8,697)
Retained earnings/(deficit)		**(16,487)**	98,561	101,795
Total equity		**329,200**	468,222	446,839

The above Condensed Statement of Financial Position should be read with the accompanying notes on pages 14-31

Condensed Statement of Changes in Equity

For the half year ended 31 December 2010

	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
		Attributable to equity holders of New Zealand Oil & Gas Limited			
UNAUDITED					
Balance as at 1 July 2010		353,741	(8,697)	101,795	446,839
Comprehensive income					
Profit/(loss) for the period		-	-	(98,950)	(98,950)
Other comprehensive income					
Fair value gain/(loss) on financial assets		-	(3)	-	(3)
Foreign currency translation differences	21	-	(5,423)	-	(5,423)
Total comprehensive income		-	(5,426)	(98,950)	(104,376)
Transactions with owners					
Shares issued	20	6,808	-	-	6,808
Buy back of issued shares	20	(874)	-	-	(874)
Share based payment	21	-	266	-	266
Transfer of expired share based payments during the period	21	-	(131)	131	-
Dividend declared (5 cents per ordinary share)		-	-	(19,463)	(19,463)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
Balance at 31 December 2010		359,675	(13,988)	(16,487)	329,200
UNAUDITED					
Balance at 1 July 2009		347,192	25,571	124,029	496,792
Comprehensive income					
Profit/(loss) for the period		-	-	(6,489)	(6,489)
Other comprehensive income					
Fair value gain/(loss) on available for sale financial assets	21	-	3,826	-	3,826
Foreign currency translation differences	21	-	(13,320)	-	(13,320)
Total comprehensive income		-	(9,494)	(6,489)	(15,983)
Transactions with owners					
Shares issued	20	6,487	-	-	6,487
Share based payment	21	-	184	-	184
Transfer of expired share based payments during the period	21	-	(279)	279	-
Dividend declared (5 cents per Ordinary share)		-	-	(19,258)	(19,258)
Supplementary dividend		-	-	(665)	(665)
Foreign investor tax credit		-	-	665	665
Balance at 31 December 2009		353,679	15,982	98,561	468,222

The above Condensed Statement of Changes in Equity should be read with the accompanying notes on pages 14-31

Condensed Statement of Changes in Equity continued

	Notes	Attributable to equity holders of New Zealand Oil & Gas Limited Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
AUDITED					
Balance at 1 July 2009		347,192	25,571	124,029	496,792
Comprehensive income					
Profit/(loss) for the period		-	-	(3,255)	(3,255)
Other comprehensive income					
Fair value gain/(loss) on available for sale financial assets	21	-	(25,396)	-	(25,396)
Foreign currency translation differences	21	-	(8,960)	-	(8,960)
Total comprehensive income		-	(34,356)	(3,255)	(37,611)
Transactions with owners					
Shares issued	20	6,549	-	-	6,549
Transfer of expired share based payments during the period	21	-	(280)	280	-
Share based payment	21	-	368	-	368
Dividend declared (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	(8,697)	101,795	446,839

The above Condensed Statement of Changes in Equity should be read with the accompanying notes on pages 14-31

Condensed Statement of Cash Flows

For the half year ended 31 December 2010

	Notes	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers		**55,719**	34,930	88,949
Interest received		**2,370**	756	2,421
Dividend income		**-**	3,283	3,283
Other revenue		**1,303**	-	600
Production and marketing expenditure		**(20,739)**	(5,879)	(13,943)
Payments to suppliers and employees (inclusive of Goods and Services Tax)		**(7,729)**	(5,930)	(12,469)
Royalties		**(6,778)**	(17,284)	(18,955)
Interest paid		**(1,054)**	-	(941)
Income taxes paid		**(2)**	(1,550)	(1,550)
Net cash inflow / (outflow) from operating activities	23	**23,090**	8,326	47,395
CASH FLOWS FROM INVESTING ACTIVITIES				
Repayment of loans by related parties		**-**	-	6,000
Exploration and evaluation expenditure		**(2,514)**	(13,154)	(28,604)
Oil & gas asset expenditure		**(3,212)**	(20,572)	(34,859)
Purchase of financial assets		**-**	-	(741)
Purchase of shares in associate company		**-**	-	(13,921)
Issue of convertible bond		**-**	-	(42,144)
Purchase property, plant and equipment		**(29)**	(337)	(445)
Loan to related party		**(25,000)**	-	(6,000)
Net cash inflow / (outflow) from investing activities		**(30,755)**	(34,063)	(120,714)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issues of shares		**188**	225	287
Borrowings		**-**	57,829	63,049
Buyback of issued shares		**(874)**	-	-
Dividend paid		**(13,503)**	(13,655)	(13,655)
Net cash inflow / (outflow) from financing activities		**(14,189)**	44,399	49,681
Net increase (decrease) in cash and cash equivalents		**(21,854)**	18,662	(23,638)
Cash and cash equivalents at the beginning of the period		**142,404**	174,753	174,753
Effects of exchange rate changes on cash and cash equivalents		**(8,718)**	(17,010)	(8,711)
Cash and cash equivalents at end of the half year	9	**111,832**	176,405	142,404

The above Condensed Statement of Cash Flows should be read with the accompanying notes on pages 14-31

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2010

1. General information

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

The condensed interim financial statements (hereafter referred to as the "financial statements") presented herewith as at and for the half year ended 31 December 2010 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 22 February 2011.

2. Summary of significant accounting policies

This condensed interim financial information for the half year ended 31 December 2010 has been prepared in accordance with Accounting Standard NZ IAS 34 *Interim Financial Reporting*.

These interim financial statements do not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2010.

(a) 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 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 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 17, Leases (Improvements to NZ IFRSs 2009) (effective from annual periods beginning on or after 1 January 2010)
- NZ IAS 24, Related Party Disclosures (revised 2009) (effective from annual periods beginning on or after 1 July 2011)
- 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)

(b) 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 on or after 1 July 2010 or later periods but which the Company has not early adopted:

- NZ IFRS 7, Financial Instruments: Disclosures Transfer of financial assets (Amendments) (effective from annual periods beginning on or after 1 July 2011)
- NZ IFRS 9 (2010), Financial Instruments (effective from annual periods beginning on or after 1 January 2013)
- NZ IAS 12, Income Taxes (Amendments) (effective from annual periods beginning on or after 1 January 2011)
- NZ IAS 24, Related Party Disclosures (revised 2009) (effective from annual periods beginning on or after 1 January 2011)

(c) Changes in accounting policies

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:

	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 new accounting policies for these assets are as follows:

Financial assets at fair value through other comprehensive income

Investments in equity instruments that are not held for trading can be 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.

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

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

Kupe

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

Exploration

Exploration and evaluation of hydrocarbons in offshore Taranaki basin and offshore Canterbury basin, New Zealand.

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.

Unaudited

Half year to 31 December 2010	Oil & Gas Tui $'000	Oil & Gas Kupe $'000	Oil & Gas Exploration $'000	Investments $'000	Other and unallocated $'000	Total $'000
Sales to external customers NZ	-	15,657	-	-	-	15,657
Sales to external customers other countries	13,080	11,745	-	-	-	24,825
Total sales revenue	13,080	27,402	-	-	-	40,482
Other income	-	-	-	-	1,559	1,559
Total revenue and other income	13,080	27,402	-	-	1,559	42,041
Segment result	(1,190)	10,042	(2,618)	(91,158)	(4,992)	(89,916)
Other reconciling items: other net finance income/(costs)						(11,213)
Profit before income tax						(101,129)
Income tax (expense)/benefit						2,179
Profit/(loss) for the period						(98,950)
Segment assets	26,252	218,149	7,075	63,022	-	314,498
Other reconciling items						123,301
Total assets						437,799
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	-	-	-
Included in segment results:						
Depreciation and amortisation expense	1,701	10,049	-	-	136	11,886

Unaudited

Half year to 31 December 2009	Oil & Gas Tui $'000	Oil & Gas Kupe $'000	Oil & Gas Exploration $'000	Investments $'000	Other and unallocated $'000	Total $'000
Sales to external customers NZ	-	-	-	-	-	-
Sales to external customers other countries	37,745	-	-	-	-	37,745
Total sales revenue	37,745	-	-	-	-	37,745
Other income	-	-	-	131	51	182
Total revenue and other income	37,745	-	-	131	51	37,927
Segment result	24,171	-	(10,918)	(4,025)	(5,035)	4,193
Other reconciling items: other net finance income/(costs)						(14,154)
Profit before income tax						(9,961)
Income tax (expense)/benefit						3,472
Profit/(loss) for the period						(6,489)
Segment assets	29,466	231,862	7,802	116,833	-	385,963
Other reconciling items Net finance income/(costs)						190,200
Total assets						576,163
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	70,756	-	70,756
Included in segment results:						
Depreciation and amortisation expense	2,705	-	-	-	160	2,865

Audited

Full year to 30 June 2010	Oil & Gas Tui $'000	Oil & Gas Kupe $'000	Oil & Gas 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: other net finance income/(costs)						(9,013)
Profit before income tax						(2,329)
Income tax (expense)/benefit						(926)
Profit/(loss) for the period						(3,255)
Segment assets	29,517	228,156	6,641	136,665	-	400,979
Other reconciling items						165,725
Total assets						566,704
Included in segment assets:						
Investments in associates accounted for using the equity method	-	-	-	77,088	-	77,088
Included in segment results:						
Depreciation and amortisation expense	5,856	9,518	-	-	294	15,668

4. Income

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Revenue			
Petroleum sales	**40,482**	37,745	99,374
Other income			
Rental income	**72**	51	136
Gain on investment held in associate	**-**	131	-
Carbon emission expenditure recovered	**796**	-	-
Other income	**691**	-	600
Total other income	**1,559**	182	736
Total Income	**42,041**	37,927	100,110

5. Operating costs

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Production and sales marketing costs*	**18,619**	5,880	15,234
Amortisation of production asset	**11,750**	3,215	15,376
Movement in inventory	**(1,159)**	188	597
Movement in stock over/(under) lift	**(933)**	-	597
Carbon emission expenditure	**1,152**	-	-
Total operating costs	**29,429**	9,283	31,804

* Operating costs for the half year to 31 December 2010 includes expenditure of NZ$8.5 million for the repair of the Pateke well in the producing Tui oil field.

6. Other Expenses

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Classification of other expenses by nature			
Audit fees	**82**	64	125
Director fees	**254**	250	541
Legal fees	**248**	104	137
Consultants' fees	**811**	150	1,727
Employee expenses	**2,137**	1,991	4,289
Bad debt expense (note 10)	**329**	-	-
Depreciation	**54**	51	101
Amortisation of Intangibles	**67**	109	192
Share based payment expense	**265**	184	368
Loss on dilution of investment in associate	**-**	-	144
Donations	**503**	-	-
Other	**2,130**	2,183	4,374
Total other expenses	**6,880**	5,086	11,998

Donations during the half year include $500,000 contribution to the Pike River Miners' Relief Trust Fund.

7. Net finance (costs)/income

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
FINANCE COSTS			
Interest and finance charges	**(1,467)**	(68)	(896)
Exchange losses on foreign currency balances	**(7,398)**	(13,960)	(8,010)
Impairment of loans and receivables* (note 10)	**(13,000)**	-	-
Fair value adjustment of financial asset* (note 17)	**(742)**	-	-
Impairment of investment in associate* (note 13)	**(77,088)**	-	-
Net fair value loss on convertible bond* (note 11)	**(7,534)**	-	-
Net fair value loss on derivatives	**-**	(199)	(1,576)
Expiry and settlement of derivatives	**-**	(493)	(794)
Total finance costs	**(107,229)**	(14,720)	(11,276)
FINANCE INCOME			
Interest income	**5,187**	566	2,263
Total finance income	**5,187**	566	2,263
Net finance income/(costs)	**(102,042)**	(14,154)	(9,013)

* 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. 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 10, 11, 13 and 17.

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 & oil field.

9. Cash and cash equivalents

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Cash at bank and in hand	**50,920**	9,883	22,661
Deposits at call	**21,860**	18,423	17,913
Short term deposits	**39,052**	148,099	101,830
Total cash and cash equivalents	**111,832**	176,405	142,404

10. Receivables and prepayments

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Net trade receivables			
Trade receivables	**4,473**	9,962	19,564
Interest receivable	**1,498**	103	251
Less: Provision for doubtful receivables	**(329)**	-	-
	5,642	10,065	19,815
Net receivables from related parties			
Short term loan facility to PRCL	**25,000**	-	-
Less: Provision for impairment of short term loan facility to PRCL	**(13,000)**	-	-
	12,000	-	-
Other			
Prepayments	**1,576**	842	627
Stock under lift	**336**	-	-
Other	**364**	2	352
Total receivables and prepayments	**19,918**	10,909	20,794

Provision for impairment of short term loan facility to PRCL

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed in receivership. This follows the tragic events triggered by the explosion at the mine on 19 November 2010.

The Group has provided for a likely loss of $13.0 million in respect of the unsecured portion of the $25.0 million short term facility advanced to PRCL and loss of accrued interest of $0.329 million during the half year ended 31 December 2010. The Group has recognised no impairment loss in respect of the $12.0 million secured portion of the short term facility or loss in respect of interest accruing on this portion of the loan.

The provision for impairment of the unsecured portion of the short term facility has been recognised based on a best estimate of the likely outcome of the receivership. Following discussions with the Receivers, the Group determined the best estimate by applying a range of probabilities to the estimated future cash flows from the assets based on the estimates of the potential recoverable values of the mine, equipment, other associated assets and insurance proceeds. While the Group has recognised an impairment 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 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 'Other expense – bad debt expense' in the income statement.

11. Convertible bond

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Convertible Bond – recoverable fair value	**33,968**	-	-
Convertible Bond – fixed interest (amortised cost)	**-**	-	36,016
Convertible Bond – equity option	**-**	-	3,917
Total convertible bond	**33,968**	-	39,933

During the year ended 30 June 2010 the Group entered into an agreement with Pike River Coal Limited (In Receivership) ("PRCL") to subscribe for a convertible bond facility 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.

Following discussions with the Receiver, the Group determined the best estimate of the recoverable fair value by applying a range of probabilities to the estimated future cash flows from the assets based on the estimates of the potential recoverable values of the mine, equipment, other associated assets and insurance proceeds. As at 31 December 2010 the Group's assessment is that the recoverable value/fair value of the convertible bond is $33.968 million.

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.

12. Investments in subsidiaries

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

			Equity holding	
Name of entity	Country of incorporation	Classes of shares	December 2010 %	December 2009 %
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 38494 Limited	New Zealand	Ordinary	**100**	100
NZOG 38483 Limited	New Zealand	Ordinary	**100**	100
NZOG Canterbury Limited (previously NZOG Deepwater Limited)	New Zealand	Ordinary	**100**	100
NZOG Developments Limited	New Zealand	Ordinary	**100**	100
NZOG Devon Limited	New Zealand	Ordinary	**100**	-
NZOG Egmont Limited	New Zealand	Ordinary	**100**	-
NZOG Energy Limited	New Zealand	Ordinary	**100**	100
NZOG Offshore Limited	New Zealand	Ordinary	**100**	100
NZOG Pacific Limited	New Zealand	Ordinary	**100**	-
NZOG Services Limited	New Zealand	Ordinary	**100**	100
NZOG Taranaki Limited	New Zealand	Ordinary	**100**	100
Oil Holdings Limited	New Zealand	Ordinary	**100**	100
Petroleum Resources Limited	New Zealand	Ordinary	**100**	100
Petroleum Equities Limited	New Zealand	Ordinary	**100**	100
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 predominantly involved in the petroleum exploration industry, other than NZOG 38483 Limited which is the issuer of debt to Pike River Coal Limited (In Receivership).

All subsidairies within the Group have a functional currency of New Zealand dollars, except the following:

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

13. Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

		Ownership interest			Group carrying amount		
Name of company	Principal activity	31 Dec 2010 %	31 Dec 2009 %	30 Jun 2010 %	Unaudited Half Year 31 Dec 2010 $'000	Unaudited Half Year 31 Dec 2009 $'000	Audited Full Year 30 Jun 2010 $'000
Pike River Coal Limited (In Receivership)	Coal mining	**29.4**	29.6	29.4	**-**	70,756	77,088

On 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership. 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 and 17.3 million options.

	Unaudited Half Year 31 December 2010 $'000	Audited Full Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
(b) Movements in carrying amounts			
Carrying amount at the beginning of the period	**77,088**	74,781	74,781
Share of net loss of associate	**-**	(4,156)	(11,470)
Impairment of investment in associate	**(77,088)**	-	-
Gain/(loss) on investment held in associate	**-**	131	(144)
Purchase of shares in associate	**-**	-	13,921
Carrying amount at the end of the period	**-**	70,756	77,088

14. 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:

	Interests held by the group		
	Unaudited Half Year 31 December 2010 %	Unaudited Half Year 31 December 2009 %	Audited Full Year 30 June 2010 %
Name of entity			
PML 38146 Kupe	**15.0%**	15.0%	15.0%
PMP 38158 Tui	**12.5%**	12.5%	12.5%
PEP 38483 Bahamas (formerly Aihe) (i)	**18.9%**	18.9%	18.9%
PEP 38483 Aihe Extension (i)	**- %**	12.5%	- %
PEP 38259 Barque	**40.0%**	40.0%	40.0%
PEP 51311 Kaupokonui(formerly Gamma) (ii)	**100.0%**	100.0%	100.0%
PEP 51321 Kahurangi (iii)	**18.9%**	18.9%	18.9%
PEP 38401 Hoki (iv)	**- %**	10.0%	10.0%
PEP 38491 Albacore (v)	**44.4%**	40.0%	40.0%
PEP 51988 Mangaa	**100.0%**	- %	100.0%
PEP 51558 Parihaka	**20.0%**	- %	- %

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

(ii) The Group has signed a farm-out arrangement with Peak Oil & Gas Ltd for 10% in PEP 51311 (Kaupokonui). At 31 December 2010 the transfer of the interest was still conditional.

(iii) PEP 51321 (Kahurangi) was relinquished in January 2011.

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

(iv) Subsequent to reporting date and conditional on consent from the Minister of Energy the Group will hold 100% interest in PEP 38491 (Albacore).

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Share of oil and gas joint ventures' assets and liabilities			
Cash and cash equivalents	**6,193**	9,791	6,547
Trade receivables*	**618**	559	2,453
Inventory	**1,515**	555	139
Petroleum interests**	**296,551**	293,814	298,522
Total assets	**304,877**	304,719	307,661
Current liabilities	**6,373**	12,075	11,678
Non current liabilities	**-**	-	-
Total liabilities	**6,373**	12,075	11,678
Net assets	**298,504**	292,644	295,983
Share of oil and gas joint ventures' revenue, expenses and results			
Revenues*	**46**	17	355
Expenses	**(11,622)**	(17,947)	(44,814)
Profit before income tax	**(11,576)**	(17,930)	(44,459)

* Revenue receivable from Tui & 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.

15. Exploration and evaluation assets

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Opening balance	**6,641**	5,236	5,236
Expenditure capitalised	**3,178**	13,626	32,044
Revaluation of USD exploration and evaluation assets	**(126)**	(142)	58
Expenditure written off	**(2,618)**	(10,918)	(30,697)
Closing balance	**7,075**	7,802	6,641

16. Oil and gas assets

(a) Development assets

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Opening balance	**-**	207,140	207,140
Expenditure capitalised	**-**	20,787	27,747
Borrowing costs capitalised	**-**	1,106	1,210
Expiry of commodity premium	**-**	(227)	(410)
Abandonment provision	**-**	3,508	-
Commissioning revenue and expense capitalised	**-**	(452)	(573)
Transferred to production assets	**-**	-	(235,114)
Closing balance	**-**	231,862	-

Included borrowing costs capitalised 31 December 2009 of $10.4 million.

(b) Production assets

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Opening balance	**257,673**	35,141	35,141
Expenditure capitalised	**991**	468	1,462
Amortisation for the period	**(11,750)**	(3,215)	(15,376)
Revaluation of USD production assets	**(2,854)**	(3,649)	(2,453)
Expiry of commodity premium	**-**	(266)	(383)
Abandonment provision	**341**	987	4,168
Transfer from development assets	**-**	-	235,114
Closing balance	**244,401**	29,466	257,673
Includes borrowing costs capitalised of $11.1 million at 31 December 2010 (2009: $1.8 million).			
Total oil and gas assets	**244,401**	261,238	257,673

17. Other financial assets

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Pan Pacific Petroleum NL – Shares:			
Investment assets (fair value through other comprehensive income)	**17,054**	-	-
Available for sale financial assets	**-**	46,077	18,923
	17,054	46,077	18,923
Pike River Coal Limited (In Receivership) financial assets (fair value through profit or loss):			
Shares and options	**-**	-	-
Coal Contract Option	**742**	-	721
Less: Fair value adjustment to profit or loss	**(742)**	-	-
	-	-	721
Other			
Refundable security deposits	**43**	43	43
Total other financial assets	**17,097**	46,120	19,687

(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 $17.1 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$23.1 million (US$17.8 million) and is held by Stewart Petroleum Co Limited.

Shares and options held in Pike River Coal Limited (In Receivership)

On the 13 December 2010 Pike River Coal Limited ("PRCL") was placed into receivership. 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 investments 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 and 17.3 million options.

Prior to the adoption of NZ IFRS 9 (2009) an impairment of the shares and options was recognised based on a best estimate of the likely outcome of the receivership. Following discussions with the Receivers, the Group determined the best estimate by applying a range of probabilities to the estimated future cash flows from the assets based on the estimates of the potential recoverable values of the mine, equipment, other associated 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 to the Group for the year ended 30 June 2010 is recorded at a nil market value (30 June 2010: NZ$0.7 million). The cost of the coal contract option to the group was NZ$0.7 million (US$0.5 million). The Group has determined the coal contract option has become fully impaired.

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.

18. Payables

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Trade payables	**6,904**	12,438	12,472
Employee entitlements	**328**	231	286
Accrued expenses	**1,258**	524	572
Interest payable	**610**	-	289
Royalties payable	**1,920**	5,001	6,497
Stock overlift	**-**	-	598
Other payables	**1,599**	83	83
Total payables	**12,619**	18,277	20,797

19. Borrowings

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Secured Current			
Bank loans	**2,150**	10,500	3,217
Secured Non current			
Bank loans	**60,945**	47,328	59,588
Total borrowings	**63,095**	57,828	62,805

Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui area oil fields. At 31 December 2010 the Letter of Credit facility was US$5.5 million (31 December 2009: US$6.7 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 field, investments in Pike River Coal Limited (In Receivership), and a number of exploration assets.

At 31 December 2010 the Group has a project facility in respect of Kupe of NZ$75 million and a Letter of Credit facility of NZ$10 million with Westpac Banking Corporation. Drawings from the facility can be in NZD, AUD or USD. At 31 December 2010 NZ$63.0 million (31 December 2009: NZ$57.8 million) of the project facility was drawn and the Letter of Credit 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.

20. Contributed equity of the Group and Parent

(a) Share capital

	Unaudited Half Year 31 December 2010 Shares 000s	Unaudited Half Year 31 December 2009 Shares 000s	Audited Full Year 30 June 2010 Shares 000s	Unaudited Half Year 31 December 2010 000s	Unaudited Half Year 31 December 2009 000s	Audited Full Year 30 June 2010 000s
Ordinary shares						
Fully paid shares	**393,713**	389,038	389,093	**359,620**	353,636	353,697
Partly paid shares	**5,540**	4,320	4,415	**55**	43	44
	399,253	393,358	393,508	**359,675**	353,679	353,741

(b) Movements in ordinary share capital:

	Unaudited Half Year 31 December 2010 Shares 000s	Unaudited Half Year 31 December 2009 Shares 000s	Audited Full Year 30 June 2010 Shares 000s	Unaudited Half Year 31 December 2010 000s	Unaudited Half Year 31 December 2009 000s	Audited Full Year 30 June 2010 000s
Opening	**393,508**	387,858	387,858	**353,741**	347,192	347,192
Issues of ordinary shares during the year						
Shares issued	**5,236**	3,919	3,919	**6,620**	6,262	6,263
Buy back of issued shares	**(766)**	-	-	**(874)**	-	-
Partly paid shares issued	**1,275**	1,581	1,731	**188**	225	286
Closing balance of ordinary shares issued	**399,253**	393,358	393,508	**359,675**	353,679	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

Partly paid shares issued by the company to participants of the ESOP are paid up to NZ$0.01 per share on issue. Partly paid shares are entitled to a vote in proportion to the amount paid up.

21. Reserves

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Reserves			
Revaluation reserve	**(4,120)**	-	-
Available for sale financial asset reserve	**-**	25,105	(4,117)
Share based payments reserve	**501**	183	366
Foreign currency translation reserve	**(10,369)**	(9,306)	(4,946)
Total reserves	**(13,988)**	15,982	(8,697)
Movements			
Revaluation reserve			
Balance 1 July	**-**	-	-
Transfer from available for sale reserve on adoption of NZ IFRS 9	**(4,120)**	-	-
Balance at period end	**(4,120)**	-	-
Available for sale reserve			
Balance 1 July	**(4,117)**	21,279	21,279
Fair value gain/(loss) on available for sale for the period	**(3)**	3,826	(25,396)
Transfer of available for sale reserve to revaluation reserve	**(4,120)**	-	-
Balance at period end	**-**	25,105	(4,117)
Share based payments reserve			
Balance 1 July	**366**	278	278
Share based payment expense for the period	**266**	184	368
Transfer of expired share based payments during the period	**(131)**	(279)	(280)
Balance at period end	**501**	183	366
Foreign currency translation reserve			
Balance 1 July	**(4,946)**	4,014	4,014
Foreign currency translation differences for the period	**(5,423)**	(13,320)	(8,960)
Balance at period end	**(10,369)**	(9,306)	(4,946)

Nature and purpose of reserves

(i) Previous Available for sale reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL, equity investments in Pike River Coal Limited (In Receivership) and 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 31 December 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) and ANZ Resources Pty Limited (AUS). 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.

22. Related party transactions

During the half year to 31 December 2010 the Group had the following transactions with related party Pike River Coal Limited (In Receivership) ("PRCL"):

Short Term Funding

The Group provided short term funding to Pike, on commercial terms, of NZ$25 million that was drawn at 31 December 2010. The Group received NZ$0.6 million in fees and earned interest of NZ$0.6 million during the half year. At 31 December 2010 NZ$0.5 million of accrued interest is outstanding.

Convertible Bond

During the half year to 31 December the Group earned US$1.5 million of interest owing on the US$28.9 million convertible bond facility that was fully drawn by PRCL in May 2010. At 31 December 2010, US$0.8 million of the interest earned was outstanding.

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

23. Reconciliation of profit(loss) after income tax and royalties to net cash inflow from operating activities

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Profit/(loss) for the period	**(98,950)**	(6,489)	(3,255)
Depreciation and amortisation	**11,871**	3,375	15,670
Deferred Tax	**(3,092)**	(3,444)	1,041
Net fair value loss on convertible bond	**7,534**	199	1,576
Impairment of loans and receivables	**13,000**	-	-
Fair value adjustment of financial asset	**742**	-	-
Impairment of investment in associate	**77,088**	-	-
Loss/(gain) on investment held in associate	**-**	(131)	144
Exploration and evaluation costs expensed	**2,618**	10,918	30,697
Items classified as financing activities	**-**	493	794
Share of net loss of associate	**-**	4,156	11,470
Share based payment expense	**265**	184	368
Net foreign exchange differences	**7,398**	13,960	8,010
Other	**(1,570)**	-	(367)
Change in operating assets and liabilities			
Increase/(decrease) in trade creditors	**(5,259)**	(15,112)	(11,410)
(Increase)/decrease in trade debtors	**11,445**	217	(7,343)
Net cash inflow from operating activities	**23,090**	8,326	47,395

24. Commitments and contingent 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

Operating leases held over premises give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2010 $'000
Within one year	**174**	431	388
Later than one year and not later than five years	**-**	176	-
Later than five years	**-**	-	-
	174	607	388

During the period ended 31 December 2010 $220,000 was recognised as an expense in the income statement in respect of operating leases (31 December 2009: $171,000).

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 FPSO lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by NZOG to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US$16.6 million.

(c) Contingent assets

The Group has overriding royalties in relation to production from the Kupe field. As at balance date the Group was in discussions with the parties that have an obligation of paying the overriding royalties to agree the basis of the calculation. At balance date a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

(d) Contingent liabilities

As at 31 December 2010 the Company had no contingent liabilities (30 June 2010:$Nil).

25. Earnings per share

	Unaudited Half Year 31 December 2010 Cents	Unaudited Half Year 31 December 2009 Cents	Audited Full Year 30 June 2010 Cents
(a) Basic earnings per share			
Basic earnings per share	**(25.0)**	(1.7)	(0.8)
(b) Diluted earnings per share			
Diluted earnings per share	**(25.0)**	(1.7)	(0.8)

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

	Unaudited Half Year 31 December 2010 $'000	Unaudited Half Year 31 December 2009 $'000	Audited Full Year 30 June 2009 $'000
Profit for the period	**(98,950)**	(6,489)	(3,255)
Profit attributable to the ordinary equity holders of the company	**(98,950)**	(6,489)	(3,255)

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

	Unaudited Half Year 31 December 2010 Number 000s	Unaudited Half Year 31 December 2009 Number 000s	Audited Full Year 30 June 2010 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	**396,627**	393,343	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	**396,627**	393,343	392,052

The earnings per share calculation was not impacted by changes in accounting policies.

26. Subsequent events

There have been no material subsequent events since 31 December 2010.

Auditors' review report

TO THE SHAREHOLDERS OF NEW ZEALAND OIL & GAS LIMITED ("THE GROUP")

We have reviewed the attached condensed interim financial statements in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance of the Group and its financial position as at 31 December 2010.

Directors' responsibilities

The Directors of the Group are responsible for the preparation of condensed interim financial statements which give a true and fair view of the financial position of the Group as at 31 December 2010 and the results of its operations and cash flows for the six month period ended on that date.

Reviewers' responsibilities

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

Basis of opinion

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

Our firm has also provided other services to the Group in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the Group. The firm has no other relationship with, or interest in, the Group.

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the attached condensed interim financial statements do not give a true and fair view of the financial position of New Zealand Oil & Gas Limited as at 31 December 2010, the results of its operations and cash flows for the six month period ended on that date in accordance with NZ IAS 34 Interim Financial Reporting.

Our review was completed on 22 February 2011 and our opinion is expressed as at that date.

KPMG

Wellington

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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

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

Kupe Production Station

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