

NEW ZEALAND OIL & GAS LIMITED

NZ Reg. Coy. No. 037842
ARBN 003 064 962
www.nzog.com

Results for announcement to the market

Reporting Period	12 months to 30 June 2010		
Previous Reporting Period	6 months to 31 December 2009		
Comparative Reporting Period	12 months to 30 June 2009		
	Amount (NZ\$ 000s)		Increase / (decrease)
	12 months to 30 June 2010	12 months to 30 June 2009	%
Revenue from ordinary activities	99,374	138,889	(28%)
Surplus / (deficit) from ordinary activities after tax attributable to security holders	(3,255)	53,206	(106%)
Net profit / (loss) attributable to security holders	(3,255)	53,206	(106%)
	NZ\$	NZ\$	%
Net Tangible Assets per share	1.14	1.28	(11%)
Interim/Final Dividend	Amount per security	Imputed amount per security	
Final Dividend	5 cents	Fully imputed	
Record Date	17 September 2010		
Dividend Payment Date	1 October 2010		
Comments:	<p>Accompanying this announcement are the company's audited financial statements, for the year ended 30 June 2010, that have been prepared in accordance with generally accepted accounting practice and give a true and fair view of the matters to which the statements relate.</p> <p>These financial statements provide the balance of information required in accordance with Listing Rule 10.4.2, Appendix 1.</p> <p>The attached financial statements do not include the dividend declared with this notice.</p> <p>Dividend Reinvestment Plan NZOG's Dividend Reinvestment Plan (DRP) remains in operation for shareholders resident in New Zealand or Australia. These shareholders can choose to invest all or part of their future dividends in taking up additional NZOG Shares, instead of receiving cash. New Shares issued under the DRP continue to be offered at a 2.5% discount to the weighted average sale price for shares sold on each of the first five business days immediately following the dividend record date. Shareholders who wish to join the DRP or amend previous participation instructions should contact the share registry, Computershare, on 0800 467335 (NZ) or 1800 501 366 (Aust).</p>		

New Zealand Oil & Gas Limited

Financial statements

for the year ended 30 June 2010

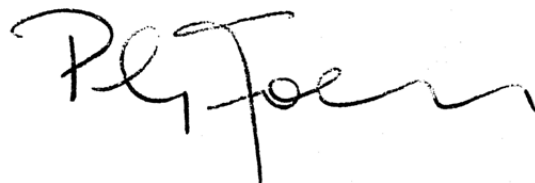
The Board of Directors of New Zealand Oil & Gas Limited authorised these Financial Statements for issue on 25 August 2010.

For and on behalf of the Board.



RA Radford
Director

25 August 2010



PG Foley
Director

25 August 2010

New Zealand Oil & Gas Limited
Income Statement
For the year ended 30 June 2010

		Group		Parent	
	Notes	2010	2009	2010	2009
		\$'000	\$'000	\$'000	\$'000
Revenue	4	99,374	138,669	-	-
Operating costs	5	(31,804)	(31,776)	-	-
Gross profit		67,570	106,893	-	-
Other income	4	736	220	677	220
Exploration and evaluation costs expensed	18	(30,697)	(4,237)	-	-
Other expenses	6	(11,998)	(14,127)	(17,039)	(9,574)
Results from operating activities		25,611	88,749	(16,362)	(9,354)
Finance cost	7	(11,276)	(1,930)	(7,015)	(19)
Finance income	7	2,263	25,228	12,887	82,881
Net finance income/(costs)	7	(9,013)	23,298	5,872	82,862
Share of loss from associates	16	(11,470)	(3,914)	-	-
Profit/(loss) before income tax and royalties		5,128	108,133	(10,490)	73,508
Royalties expense	8	(7,457)	(23,796)	-	-
Income tax expense	9	(926)	(31,131)	(302)	(899)
Profit/(loss) for the year		(3,255)	53,206	(10,792)	72,609
Profit/(loss) for the year attributable to:					
Equity holders of Parent		(3,255)	53,206	(3,255)	53,206
Earnings per share attributable to shareholders:		Cents	Cents		
Basic earnings per share	34	(0.8)	13.7		
Diluted earnings per share	34	(0.8)	13.7		
Net Tangible Asset Backing per share		Cents	Cents		
		114	128		

The above income statement should be read in conjunction with the accompanying notes on pages 7 to 47.

New Zealand Oil & Gas Limited
Statements of Comprehensive Income
For the year ended 30 June 2010

		Group		Parent	
	Notes	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit/(loss) for the year		(3,255)	53,206	(10,792)	72,609
Other comprehensive income					
Fair value gain/(loss) on available for sale financial asset	28	(25,396)	21,279	-	-
Foreign currency translation differences	28	(8,960)	9,016	-	-
Other comprehensive income for the year		(34,356)	30,295	-	-
Total comprehensive income for the year		(37,611)	83,501	(10,792)	72,609
Total comprehensive income for the year is attributable to:					
Equity holders of the Parent		(37,611)	83,501		

The above statement of comprehensive income should be read in conjunction with the accompanying notes on pages 7 to 47.

New Zealand Oil & Gas Limited
Statement of Financial Position
As at 30 June 2010

		Group		Parent	
	Notes	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Current assets					
Cash and cash equivalents	11	142,404	174,753	107,606	145,616
Receivables and prepayments	12	20,794	10,852	204,525	181,023
Inventories	13	140	637	-	-
Current tax receivables		1,842	-	665	-
Derivative financial instruments		-	190	-	-
Total current assets		165,180	186,432	312,796	326,639
Non-current assets					
Convertible Bond	14	39,933	-	-	-
Investments in associates	16	77,088	74,781	-	3,671
Evaluation and exploration assets	18	6,641	5,236	4,430	2,968
Oil and gas assets	19	257,673	242,281	-	-
Property, plant and equipment	20	336	245	336	245
Intangible assets	21	166	105	166	105
Other financial assets	22	19,687	48,872	66,716	73,455
Total non-current assets		401,524	371,520	71,648	80,444
Total assets		566,704	557,952	384,444	407,083
Current liabilities					
Payables	23	20,797	29,353	1,361	1,168
Borrowings	24	3,217	-	-	-
Current tax liabilities		-	493	-	-
Total current liabilities		24,014	29,846	1,361	1,168
Non-current liabilities					
Borrowings	24	59,588	-	-	-
Restoration and rehabilitation provision	25	11,998	8,144	-	-
Net deferred tax liability	26	24,265	23,170	1,141	839
Total non-current liabilities		95,851	31,314	1,141	839
Total liabilities		119,865	61,160	2,502	2,007
Net assets		446,839	496,792	381,942	405,076
EQUITY					
Share capital	27	353,741	347,192	353,741	347,192
Reserves	28	(8,697)	25,571	6,831	6,743
Retained earnings		101,795	124,029	21,370	51,141
Total equity		446,839	496,792	381,942	405,076

The above statement of financial position should be read in conjunction with the accompanying notes on pages 7 to 47.

New Zealand Oil & Gas Limited
Statement of Changes in Equity
For the year ended 30 June 2010

GROUP	Notes	Attributable to equity holders of New Zealand Oil & Gas Limited			
		Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2008		345,989	(5,002)	90,015	431,002
Comprehensive income					
Profit/(loss) for the year		-	-	53,206	53,206
Other comprehensive income					
Fair value gain/(loss) on available for sale financial assets		-	21,279	-	21,279
Foreign currency translation differences		-	9,016	-	9,016
Total comprehensive income		-	30,295	53,206	83,501
Transactions with owners					
Shares issued		1,203	-	-	1,203
Share based payment		-	278	-	278
Dividend declared (5 cents per ordinary share)		-	-	(19,192)	(19,192)
Supplementary dividend		-	-	(610)	(610)
Foreign investor tax credit		-	-	610	610
Balance at 30 June 2009		347,192	25,571	124,029	496,792
Balance at 1 July 2009		347,192	25,571	124,029	496,792
Comprehensive income					
Profit/(loss) for the year		-	-	(3,255)	(3,255)
Other comprehensive income					
Fair value gain/(loss) on available for sale financial assets		-	(25,396)	-	(25,396)
Foreign currency translation differences		-	(8,960)	-	(8,960)
Total comprehensive income		-	(34,356)	(3,255)	(37,611)
Transactions with owners					
Shares issued		6,549	-	-	6,549
Transfer of expired share based payments during the period		-	(280)	280	-
Share based payment		-	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 statement of changes in equity should be read in conjunction with the accompanying notes on pages 7 to 47.

New Zealand Oil & Gas Limited
Statement of Changes in Equity
For the year ended 30 June 2010
(continued)

PARENT	Notes	Issued capital \$'000	Reserves \$'000	Retained earnings \$'000	Total equity \$'000
Balance at 1 July 2008		345,989	6,465	(2,276)	350,178
Comprehensive income					
Profit/(loss) for the year		-	-	72,609	72,609
Total comprehensive income		-	-	72,609	72,609
Transactions with owners					
Shares issued		1,203	-	-	1,203
Share based payment		-	278	-	278
Dividend declared (5 cents per ordinary share)		-	-	(19,192)	(19,192)
Supplementary dividend		-	-	(610)	(610)
Foreign investor tax credit		-	-	610	610
		-	-	-	-
Balance at 30 June 2009		<u>347,192</u>	<u>6,743</u>	<u>51,141</u>	<u>405,076</u>
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		6,549	-	-	6,549
Transfer of expired share based payments during the period		-	(280)	280	-
Share based payment		-	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		<u>353,741</u>	<u>6,831</u>	<u>21,370</u>	<u>381,942</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 7 to 47.

New Zealand Oil & Gas Limited
Statement of Cash Flow
For the year ended 30 June 2010

	Notes	Group		Parent	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash flows from operating activities					
Receipts from customers		88,949	161,961	-	-
Interest received		2,421	9,242	1,736	8,171
Dividend income		3,283	-	-	-
Other revenue		600	220	600	220
Production and marketing expenditure		(13,943)	(18,659)	-	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		(12,469)	(11,292)	(10,011)	(9,148)
Royalties		(18,955)	(32,149)	-	-
Interest paid		(941)	(7)	-	(7)
Income taxes paid		(1,550)	(16,300)	-	-
Net cash inflow / (outflow) from operating activities	29	47,395	93,016	(7,675)	(764)
Cash flows from investing activities					
Repayment of loan to related party		6,000	-	6,000	-
Proceeds from disposal of available for sale financial assets		-	3,069	-	2,468
Exploration and evaluation expenditure		(28,604)	(8,942)	(1,624)	(2,805)
Development expenditure		(34,859)	(68,595)	-	-
Purchase of available for sale financial assets		(741)	(30,688)	-	-
Purchase of shares in associate company		(13,921)	(11,778)	-	(371)
Issue of convertible bond		(42,144)	-	-	-
Purchase of property, plant and equipment		(445)	(49)	(445)	(49)
Loan to related party		(6,000)	-	(6,000)	-
Loan from/(to) wholly owned subsidiaries		-	-	(7,882)	(76,217)
Net cash inflow / (outflow) from investing activities		(120,714)	(116,983)	(9,951)	(76,974)
Cash flows from financing activities					
Issues of shares		287	1,205	287	1,205
Proceeds from exercise of options		-	14,163	-	14,163
Borrowings		63,049	-	-	-
Repayment of borrowings		-	(69,048)	-	-
Dividend paid		(13,655)	(19,789)	(13,655)	(19,789)
Net derivative payments		-	(691)	-	-
Net cash inflow / (outflow) from financing activities		49,681	(74,160)	(13,368)	(4,421)
Net increase / (decrease) in cash and cash equivalents					
		(23,638)	(98,127)	(30,994)	(82,159)
Cash and cash equivalents at the beginning of the year		174,753	256,461	145,616	219,232
Effects of exchange rate changes on cash and cash equivalents		(8,711)	16,419	(7,016)	8,543
Cash and cash equivalents at end of year	11	142,404	174,753	107,606	145,616

The above statement of cash flow should be read in conjunction with the accompanying notes on pages 7 to 47.

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 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 25 August 2010.

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 entity consisting of New Zealand Oil & Gas Limited and its subsidiaries.

(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 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: derivative financial instruments and available-for-sale assets.

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 judgments

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

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

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

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to note 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 entity's in the Group to generate future taxable income. (Refer to note 26)

2 Summary of significant accounting policies (continued)

(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.

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.

2 Summary of significant accounting policies (continued)

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 available-for-sale financial assets, 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.

2 Summary of significant accounting policies (continued)

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

Investments in equity securities

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

Trade and other receivables

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

Interest-bearing borrowings

Interest-bearing borrowings are classified as other 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 as participant of joint ventures and cash held in a pre-completion reserve 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

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

Trading instruments

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

2 Summary of significant accounting policies (continued)

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 is transferred to Development assets. No amortisation is provided for in respect of exploration and evaluation assets.

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

(F) Oil and gas assets

Development

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and the cost of 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 to meet current commitments under sales contracts, 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.

2 Summary of significant accounting policies (continued)

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, 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 & 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.

Acquisitions of non-controlling interests

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

(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).

2 Summary of significant accounting policies (continued)

(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 equity instruments.

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price.

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

(ii) Impairment of receivables

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

(iii) 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(iv).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the 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.

(iv) Exploration and evaluation assets

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

Any impairment loss is recognised as an expense in the income statement in the period.

2 Summary of significant accounting policies (continued)

(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.

(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 Company'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.

2 Summary of significant accounting policies (continued)

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

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

2 Summary of significant accounting policies (continued)

(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 available-for-sale financial assets that are traded on an active market are determined by reference to their quoted bid price at the reporting date.

The fair value of available-for-sale financial assets 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 2010

The Group has adopted the following new and amended International Financial Reporting Standards as at 1 July 2009:

- NZ IFRS 2, Share Based Payments Vesting Conditions and Cancellations (Amended)
- NZ IFRS 3, Business Combinations (revised)
- NZ IFRS 4, Insurance Contracts (amended)
- NZ IFRS 7, Financial Instruments - Improved disclosure about financial instruments
- NZ IFRS 8, Operating Segments
- NZ IAS 1, Presentation of Financial Statements (revised)
- NZ IAS 23, Borrowing costs (revised)

2 Summary of significant accounting policies (continued)

- NZ IAS 27, Consolidated and Separate Financial Statements (amended)
- NZ IAS 32 and NZ IAS 1, Financial Instruments Presentation (amended) and Presentation of Financial Statements (amended) - Puttable Financial Instruments and obligations arising on liquidation
- NZ IAS 38, Intangible Assets (amendments)
- NZ IAS 39, Financial Instruments - Eligible Hedge items (amended)
- NZ IAS 39, Financial Instruments - Embedded derivatives (amended)

(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 Group's accounting periods beginning on or after 1 July 2009 or later periods but which the Group has not early adopted:

The adoption of these standards are not expected to have a material impact on the Group's financial statements

- 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, Financial Instruments - (effective from annual periods beginning on or after 1 January 2013)
- 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)

(Z) Changes in accounting policies

There have been no changes in accounting policies during the current year, with the exception of the adoption of the revised accounting standards that are listed in note 2(X). The adoption of the revised accounting standards have not resulted in a significant change to the Groups accounting policies from prior years. All other accounting policies have been applied on a basis consistent with the prior year.

3 Segment information

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

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

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

Oil and gas

Tui: 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 and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining license 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 (investment in associate) and Pan Pacific Petroleum NL (available for sale asset).

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.

3 Segment information (continued)

2010	Oil and Gas - Tui \$'000	Oil and Gas - Kupe \$'000	Oil and 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 - Net finance income/(costs)						<u>(9,013)</u>
Profit/(loss) before income tax						(2,329)
Income tax expense						<u>(926)</u>
Profit/(loss) for the year						<u>(3,255)</u>
Segment assets	29,517	228,156	6,641	136,665	-	400,979
Other reconciling items						<u>165,725</u>
Total assets						<u>566,704</u>
Included in segment assets:						
Investments in associates and joint venture partnership	-	-	-	77,088	-	77,088
Included in the segment result:						
Depreciation and amortisation expense	5,856	9,518	-	-	294	15,668

2009	Oil and Gas - Tui \$'000	Oil and Gas - Kupe \$'000	Oil and Gas - Exploration \$'000	Investments \$'000	Other and unallocated \$'000	Total \$'000
Sales to external customers - NZ	2,993	-	-	-	-	2,993
Sales to external customers - other countries	135,676	-	-	-	-	135,676
Total sales revenue	138,669	-	-	-	-	138,669
Other income	-	-	-	-	220	220
Total revenue and other income	138,669	-	-	-	220	138,889
Segment result	83,097	-	(4,237)	(3,914)	(13,907)	61,039
Other reconciling items - Net finance income/(costs)						<u>23,298</u>
Profit/(loss) before income tax						84,337
Income tax expense						<u>(31,131)</u>
Profit/(loss) for the year						<u>53,206</u>
Segment assets	35,141	207,140	5,236	123,610	-	371,127
Other reconciling items						<u>186,825</u>
Total assets						<u>557,952</u>
Included in segment assets: Investments in associates and joint venture partnership	-	-	-	74,781	-	74,781
Included in the segment result:						
Depreciation and amortisation expense	13,529	-	-	-	302	13,831

4 Income

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Revenue				
Petroleum sales	99,374	138,669	-	-
Total revenue	<u>99,374</u>	<u>138,669</u>	<u>-</u>	<u>-</u>
Other income				
Rents and sub-lease rentals	136	-	77	-
Other income	600	220	600	220
Total other income	<u>736</u>	<u>220</u>	<u>677</u>	<u>220</u>
Total income	<u>100,110</u>	<u>138,889</u>	<u>677</u>	<u>220</u>

5 Operating costs

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Production and sales marketing costs	15,234	18,539	-	-
Amortisation of production asset	15,376	13,529	-	-
Movement in inventory	597	(292)	-	-
Movement in stock over/(under) lift	597	-	-	-
	<u>31,804</u>	<u>31,776</u>	<u>-</u>	<u>-</u>

6 Other expenses

Classification of other expenses by nature

Audit fees	125	115	125	115
Directors' fees	541	472	541	472
Legal fees	137	910	136	877
Consultants' fees	1,727	2,197	1,708	2,149
Employee expenses	4,289	3,355	4,289	3,355
Depreciation	102	103	102	103
Amortisation of Intangible assets	192	199	192	199
Share based payment expense	368	278	368	278
Loss on dilution of investment in associate	144	2,773	-	-
Investment in subsidiary written off	-	-	6,738	-
Other	4,373	3,725	2,840	2,026
Total other expenses	<u>11,998</u>	<u>14,127</u>	<u>17,039</u>	<u>9,574</u>

Remuneration of auditors

Auditors' remuneration to KPMG comprises:

Audit and review of financial statements	125	115	125	115
Non-audit related services:				
Tax compliance services	142	234	142	234
Tax advisory services	69	212	69	212
Other	12	-	12	-
Total remuneration of auditors	<u>348</u>	<u>561</u>	<u>348</u>	<u>561</u>

7 Net finance income/(costs)

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Finance costs				
Interest and finance charges	(896)	(304)	-	(7)
Exchange losses on foreign currency balances	(8,010)	-	(7,015)	-
Net losses on held to maturity assets	-	-	-	(12)
Net fair value loss on derivatives	(1,576)	-	-	-
Expiry and settlement of derivatives	(794)	(1,626)	-	-
Total finance costs	<u>(11,276)</u>	<u>(1,930)</u>	<u>(7,015)</u>	<u>(19)</u>
Finance income				
Interest income	2,263	9,391	1,768	8,348
Exchange gains on foreign currency balances	-	3,697	-	8,543
Net gain on available for sale financial assets	-	589	773	-
Net fair value gain on derivatives	-	8,268	-	-
Dividend income	-	3,283	10,346	65,990
Total finance income	<u>2,263</u>	<u>25,228</u>	<u>12,887</u>	<u>82,881</u>
Net finance income/(costs)	<u>(9,013)</u>	<u>23,298</u>	<u>5,872</u>	<u>82,862</u>

8 Royalties expense

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

9 Income tax expense

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(a) Income tax expense				
Current tax	-	19,728	-	-
Deferred tax (Refer note 26)	1,041	11,403	302	899
Under/(over) provided in prior years	(115)	-	-	-
Total income tax expense	926	31,131	302	899
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	5,128	108,133	(10,490)	73,508
Less: royalties expense	(7,457)	(23,796)	-	-
Profit/(loss) before income tax expense	(2,329)	84,337	(10,490)	73,508
Tax at the New Zealand tax rate of 30% (2009 - 30%)	(699)	25,301	(3,147)	22,052
Tax effect of a change in tax rates	(1,856)	-	-	-
Tax effect of amounts which are not deductible/(taxable):				
Share of associates losses	3,441	1,174	-	-
Imputation credits received	-	(1,423)	-	-
Foreign exchange adjustments	(451)	2,433	-	-
Dividends from wholly owned subsidiaries	-	-	(3,104)	(19,797)
Other expenses/(income)	453	1,965	1,938	106
	888	29,450	(4,313)	2,361
Under/(over) provision in prior years	38	1,681	-	-
Losses utilised/(transferred)	-	-	4,615	(1,462)
Income tax expense	926	31,131	302	899

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.

10 Imputation credits

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Imputation credit account				
Balance at beginning of year	21,290	12,409	3,567	764
Tax payments, net of refunds	1,550	16,300	-	-
Credits attached to dividend distributions	(7,796)	(8,842)	(7,796)	(8,842)
Credits attached to dividends received	-	1,423	4,433	11,645
Balance at end of year	15,044	21,290	204	3,567

11 Cash and cash equivalents

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Cash at bank and in hand	22,661	12,253	685	186
Deposits at call	17,913	20,485	7,156	8,065
Short term deposits	101,830	142,015	99,765	137,365
Total cash and cash equivalents	<u>142,404</u>	<u>174,753</u>	<u>107,606</u>	<u>145,616</u>

Cash and cash equivalents denominated in currencies other than the presentation currency comprise \$52 million denominated in US dollars; NZ dollar equivalent \$75 million (2009: US dollars \$94 million; NZ dollar equivalent \$146 million).

(a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.10% and 4.57% (2009: 0.10% and 2.80%).

(b) Restriction of use

Cash held in respect of the Kupe project of \$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.

In respect of the Tui project finance facility, the Company has agreed that deposits of US\$5.9 million (NZ dollar equivalent \$8.5 million) are held in escrow by Commonwealth Bank of Australia based on the level of the Letter of Credit Facility outstanding to the bank.

12 Receivables and prepayments

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade receivables	19,564	9,936	-	3
Interest receivable	251	294	251	218
Advances to related parties	-	-	203,288	180,617
Prepayments	627	486	57	49
Other	352	136	929	136
Total receivables and prepayments	<u>20,794</u>	<u>10,852</u>	<u>204,525</u>	<u>181,023</u>

Trade receivables denominated in currencies other than the presentation currency comprise \$8.7 million denominated in US dollars; NZ dollar equivalent \$12.6 million (2009: \$3.7 million denominated in US dollars and \$2.6 million denominated in Australian dollars; NZ dollar equivalent \$9.0 million).

13 Inventories

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Oil stock, at cost	107	605	-	-
LPG stock, at cost	33	-	-	-
Field operation consumables, at cost	-	32	-	-
Total inventories	<u>140</u>	<u>637</u>	<u>-</u>	<u>-</u>

14 Convertible Bond

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Convertible Bond - fixed interest	36,016	-	-	-
Convertible Bond - equity option	3,917	-	-	-
Total convertible bond	<u>39,933</u>	<u>-</u>	<u>-</u>	<u>-</u>

During the year the Group entered into an agreement with Pike River Coal Limited ("Pike") to subscribe for a convertible bond facility with a face value of US\$28.9 million. The facility is for a term of 2 years up to 12 March 2012 and at an annual interest rate of 10%. The facility is a first ranking secured debt ranked equally with other Pike debt of up to NZ\$20 million.

The convertible bond facility can be converted to shares in Pike at the option of the Group or repaid in cash. If the bond is converted to shares the conversion price will be subject to standard anti-dilution clauses in the agreement that will reduce the conversion price if further securities are issued at a lower price.

The Group recognises that the convertible bond incorporates an equity option and a fixed interest component, and has separately recorded these components.

The fixed interest component, classified as loans and receivables, is initially recorded at fair value and is held at amortised cost. The initial fair value of the fixed interest component was US\$24.7 million (NZ\$36.7 million). Over the term of the bond, the fair value of the fixed interest component will progressively appreciate to the face value of US\$28.9 million on maturity.

The equity option component is a financial derivative, classified as held for trading, and is recorded in the statement of financial position at fair value with subsequent changes in fair value recorded in the income statement. The initial fair value of the equity option was NZ\$5.3 million.

15 Investments in subsidiaries

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

Name of entity	Country of incorporation	Classes of shares	Equity holding	
			2010 %	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 38483 Limited	New Zealand	Ordinary	100	100
NZOG 38494 Limited	New Zealand	Ordinary	100	100
NZOG Deepwater Limited	New Zealand	Ordinary	100	100
NZOG Development Limited	New Zealand	Ordinary	100	100
NZOG Energy Limited	New Zealand	Ordinary	100	100
NZOG Offshore Limited	New Zealand	Ordinary	100	100
NZOG 38259 Limited	New Zealand	Ordinary	100	100
NZOG Services Limited	New Zealand	Ordinary	100	100
NZOG Taranaki Limited	New Zealand	Ordinary	100	100
Oil Holdings Limited	New Zealand	Ordinary	100	100
Petroleum Resources Limited	New Zealand	Ordinary	100	100
Petroleum Equities Limited	New Zealand	Ordinary	100	100
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)

16 Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Shares in associates	<u>77,088</u>	74,781	-	<u>3,671</u>

During the year ended 30 June 2010 the shares and options held in associate Pike River Coal Limited ("Pike") by the Parent were sold to the wholly owned subsidiary NZOG Services Limited at market value. After the sale all of the Pike shares and options within the Group are held by NZOG Services Limited.

16 Investments in associates (continued)

Significant associates comprise:	Principal activities	Interest held by the consolidated group		Group carrying amount	
		2010	2009	2010	2009
				\$'000	\$'000
Pike River Coal Limited (Pike)	Coal mining	29.4%	29.6%	77,088	74,781

Pike is incorporated in New Zealand with a balance date of 30 June.

The Group's holding in Pike comprises 119.0 million ordinary shares and 17.3 million options that are exercisable on or before 24 April 2011 at \$1.25. The market value of the Group's investment in Pike as at 30 June 2010 was \$107 million.

Movements in carrying amounts	Group	
	2010 \$'000	2009 \$'000
Carrying amount at the beginning of the year	74,781	68,670
Share of net loss of associate	(11,470)	(3,914)
Loss on investment held in associate	(144)	(2,773)
Purchase of shares in associate	13,921	11,778
Acquired associate shares on maturity of convertible note	-	3,300
Reclassification of NZOG Nominees Limited shares to available-for-sale financial asset	-	(2,280)
Carrying amount at the end of the financial year	<u>77,088</u>	<u>74,781</u>

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

	Assets \$'000	Liabilities \$'000	Revenues \$'000	Profit/(Loss) \$'000
2010				
Pike River Coal Limited	<u>339,995</u>	<u>77,689</u>	<u>3,346</u>	<u>(39,028)</u>
2009				
Pike River Coal Limited	<u>306,367</u>	<u>53,474</u>	<u>5</u>	<u>(13,018)</u>

17 Interests in oil and gas joint ventures

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

Name of entity	Date new permit interest acquired	Interests held by the Group	
		2010	2009
PML 38146 - Kupe		15.0%	15.0%
PMP 38158 - Tui		12.5%	12.5%
PEP 38483 - Bahamas (formerly Aihe)		18.9%	18.9%
PEP 38483 - Aihe extension		- %	12.5%
PEP 38259 - Barque		40.0%	40.0%
PEP 51311 - Kaupokonui (formerly Gamma)		100.0%	100.0%
PEP 51321 - Kahurangi		18.9%	18.9%
PEP 38401 - Hoki	July 2009	10.0%	- %
PEP 38491 - Albacore	August 2009	40.0%	- %
PEP 51988 - Mangaa	January 2010	100.0%	- %

	Group	
	2010 \$'000	2009 \$'000
Share of oil and gas joint ventures' assets and liabilities		
Short term securities and cash deposits	6,547	11,997
Trade receivables *	2,453	904
Inventory	139	637
Prepayments	-	-
Petroleum interests **	298,522	269,985
Total current and non-current assets	<u>307,661</u>	<u>283,523</u>
Current liabilities	11,678	10,190
Non-current liabilities	-	-
Total current and non-current liabilities	<u>11,678</u>	<u>10,190</u>
Net assets	<u>295,983</u>	<u>273,333</u>
Share of oil and gas joint ventures' revenue, expenses and results		
Revenues *	355	328
Expenses	(44,814)	(24,206)
Profit before income tax	<u>(44,459)</u>	<u>(23,878)</u>

* Revenue receivable from Tui and Kupe petroleum sales (see note 12) is not included as it is earned directly by the wholly owned subsidiaries that hold the permit interests.

** Prior to amortisation of production assets.

18 Exploration and evaluation assets

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	5,236	215	2,968	-
Expenditure capitalised	32,044	9,338	1,462	2,968
Revaluation of USD exploration and evaluation assets	58	(80)	-	-
Expenditure written off	(30,697)	(4,237)	-	-
Closing balance	<u>6,641</u>	<u>5,236</u>	<u>4,430</u>	<u>2,968</u>

19 Oil and gas assets

(a) Development assets

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	207,140	166,257	-	-
Expenditure capitalised	27,747	42,425	-	-
Borrowing costs capitalised	1,210	2,367	-	-
Expiry of commodity premium	(410)	(75)	-	-
Abandonment provision	-	(3,834)	-	-
Capitalised during commissioning	(573)	-	-	-
Transferred to production assets	(235,114)	-	-	-
Closing balance	<u>-</u>	<u>207,140</u>	<u>-</u>	<u>-</u>

Included borrowing costs capitalised of \$9.3 million at 30 June 2009.

(b) Production assets

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Opening balance	35,141	38,242	-	-
Transfer from development assets	235,114	-	-	-
Expenditure capitalised	1,462	3,895	-	-
Amortisation for the year	(15,376)	(13,529)	-	-
Revaluation of USD production assets	(2,453)	7,566	-	-
Expiry of commodity premium	(383)	(860)	-	-
Abandonment provision	4,168	(173)	-	-
Closing balance	<u>257,673</u>	<u>35,141</u>	<u>-</u>	<u>-</u>

Includes borrowing costs capitalised of \$11.7 million at 30 June 2010 (2009: \$2.2 million).

Total oil and gas assets	<u>257,673</u>	<u>242,281</u>	<u>-</u>	<u>-</u>
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As at 1 January 2010 the development asset relating to the Kupe oil & gas field was determined to be operating within its maximum and minimum daily gas design parameters. On this date the Kupe field development asset was transferred to production assets. Production from the Kupe field commenced 4 December 2009. Income and expenditure from the production of gas, LPG and light oil for the period from 4 December 2009 to 31 December 2009 was capitalised.

20 Property, plant and equipment

Group and Parent	Land & Leasehold improvement \$'000	Fixtures and fittings \$'000	Computer Hardware & Technical Equipment \$'000	Total \$'000
At 1 July 2008				
Cost	145	132	248	525
Accumulated depreciation	(13)	(44)	(162)	(219)
Net book value	<u>132</u>	<u>88</u>	<u>86</u>	<u>306</u>
Year ended 30 June 2009				
Opening net book value	132	88	86	306
Additions	-	2	40	42
Depreciation charge	(12)	(14)	(77)	(103)
Closing net book value	<u>120</u>	<u>76</u>	<u>49</u>	<u>245</u>
At 30 June 2009				
Cost	145	134	288	567
Accumulated depreciation	(25)	(58)	(239)	(322)
Net book value	<u>120</u>	<u>76</u>	<u>49</u>	<u>245</u>
Opening net book value	120	76	49	245
Additions	81	12	100	193
Depreciation charge	(18)	(19)	(65)	(102)
Closing net book value	<u>183</u>	<u>69</u>	<u>84</u>	<u>336</u>
At 30 June 2010				
Cost	226	144	337	707
Accumulated depreciation	(43)	(75)	(253)	(371)
Net book value	<u>183</u>	<u>69</u>	<u>84</u>	<u>336</u>

21 Intangible assets

	Group and Parent	
	2010	2009
	\$'000	\$'000
	Computer software	Computer software
At 1 July		
Intangible assets (at cost)	528	521
Less: Accumulated amortisation	<u>(423)</u>	<u>(224)</u>
Net book value	<u>105</u>	<u>297</u>
Movement		
Opening net book value	105	297
Additions	253	7
Amortisation charge	<u>(192)</u>	<u>(199)</u>
Closing net book value	<u>166</u>	<u>105</u>
At 30 June		
Intangible assets (at cost)	781	528
Less: Accumulated amortisation	<u>(615)</u>	<u>(423)</u>
Net book value	<u>166</u>	<u>105</u>

22 Other financial assets

		Group		Parent	
		2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Available-for-sale financial assets	(a)	19,644	48,829	-	-
Refundable security deposits	(b)	43	43	-	-
Shares in subsidiaries (note 15)		-	-	66,716	73,455
Total other financial assets		<u>19,687</u>	<u>48,872</u>	<u>66,716</u>	<u>73,455</u>

(a) Available-for-sale financial assets

Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is recorded at market value at balance date of \$18.9 million and is classified for accounting purposes as an available-for-sale financial asset. The cost of this investment was the equivalent of NZ\$25.6 million (US\$17.8 million) and is held by Stewart Petroleum Co Limited.

Coal Contract Option with Pike River Coal Limited

The coal contract option issued by Pike River Coal Limited ("Pike") to the Group during the period is recorded at a market value of NZ\$0.7 million and is classified for accounting purposes as an available-for-sale financial asset. The cost of the coal contract option to the group was NZ\$0.7 million (US\$0.5 million).

The coal contract option was issued as part of an agreement for the Group to participate in Pike's May 2010 equity issue and subscribe for a convertible bond facility. The contract grants the Group an option to purchase an amount of Pike coal for the life of the mine. The coal contract option is exercisable at any time until 31 March 2012. The coal option enables the Group to enter into an offtake agreement to purchase Pike coking coal at market prices that are agreed on an annual basis. The maximum volumes which may be purchased under the offtake agreement would be the currently uncontracted coal quantities until 31 March 2013 and up to 30% of annual coal production for the remaining life of mine.

(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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Trade payables	12,472	10,721	588	531
Employee entitlements	286	172	286	172
Accrued expenses	572	384	404	384
Interest payable	289	-	-	-
Royalties payable	6,497	17,995	-	-
Stock overlift	598	-	-	-
Other payables	83	81	83	81
Total payables	<u>20,797</u>	<u>29,353</u>	<u>1,361</u>	<u>1,168</u>

Payables denominated in currencies other than the presentation currency comprise \$3.5 million of payables denominated in US dollars; NZ dollar equivalent \$5.2 million. (2009: US dollars \$1.2 million; NZ dollar equivalent \$1.9 million)

24 Borrowings

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Secured - Current				
Bank loans	3,217	-	-	-
Secured - Non-current				
Bank loans	<u>59,588</u>	-	-	-
Total interest bearing liabilities	<u>62,805</u>	-	-	-

Further information relating to maturity dates and contractual repayment terms of the borrowings is set out in note 30.

(a) Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui oil field. At 30 June 2010 the Letter of Credit facility was US\$5.9 million (30 June 2009: US\$7.6 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility for the Tui oil fields is secured over the Group's assets other than those primarily relating to the Kupe, investments in Pike River Coal Limited, and a number of exploration assets.

At 30 June 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 30 June 2010 NZ\$62.8 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.

25 Restoration and rehabilitation provision

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Restoration and rehabilitation provision	<u>11,998</u>	8,144	-	-
Total non-current provisions	<u>11,998</u>	8,144	-	-

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

	2010 \$'000	2009 \$'000
Group		
Carrying amount at start of year	8,144	11,322
Additional/(reduction) in provision recognised	2,863	(4,382)
Increase/(decrease) in provision due to revision of passage of time	1,345	406
Revaluation of USD provisions	<u>(354)</u>	<u>798</u>
Carrying amount at end of year	<u>11,998</u>	<u>8,144</u>

26 Deferred tax assets and liabilities

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:				
<i>Deferred tax assets</i>				
Employee benefits	86	51	86	51
Accruals	281	-	102	-
Non-deductible provisions	3,360	2,444	-	-
Tax losses	3,697	-	-	-
Total deferred tax asset	<u>7,424</u>	<u>2,495</u>	<u>188</u>	<u>51</u>
<i>Deferred tax liabilities</i>				
Exploration assets	(1,992)	(1,398)	(1,329)	(890)
Oil & gas assets	(26,383)	(20,619)	-	-
Capitalised borrowing costs	(3,307)	(3,434)	-	-
Derivatives	-	(214)	-	-
Other financial assets	(7)	-	-	-
Sub-total other	<u>(31,689)</u>	<u>(25,665)</u>	<u>(1,329)</u>	<u>(890)</u>
Net deferred tax assets/(liabilities)	<u>(24,265)</u>	<u>(23,170)</u>	<u>(1,141)</u>	<u>(839)</u>
Movements:				
Net deferred tax asset/(liability) at 1 July	(23,170)	(12,202)	(839)	60
Charged/(credited) to the income statement (note 9)	(1,041)	(11,403)	(302)	(899)
Foreign exchange differences	(54)	435	-	-
Closing balance at 30 June	<u>(24,265)</u>	<u>(23,170)</u>	<u>(1,141)</u>	<u>(839)</u>

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

27 Contributed equity of the Group and Parent

	2010 Number of Shares 000s	2009 Number of Shares 000s	2010 \$'000	2009 \$'000
(a) Share capital				
Ordinary shares				
Fully paid shares	389,093	384,931	353,697	347,163
Partly paid shares	4,415	2,927	44	29
	<u>393,508</u>	<u>387,858</u>	<u>353,741</u>	<u>347,192</u>

(b) Movements in ordinary share capital:

	2010 Shares 000s	2009 Shares 000s	2010 \$'000	2009 \$'000
Opening	387,858	387,358	347,192	345,989
Issues of ordinary shares during the year				
Shares issued	3,919	-	6,263	1,198
Partly paid shares issued	1,731	500	286	5
Closing balance of ordinary shares issued	<u>393,508</u>	<u>387,858</u>	<u>353,741</u>	<u>347,192</u>

(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 32.

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.

28 Reserves

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
(a) Reserves				
Available-for-sale financial asset revaluation reserve	(4,117)	21,279	-	-
Share-based payments reserve	366	278	366	278
Foreign currency translation reserve	(4,946)	4,014	-	-
Share revaluation	-	-	6,465	6,465
Total reserves	<u>(8,697)</u>	<u>25,571</u>	<u>6,831</u>	<u>6,743</u>

Movements:

Available-for-sale investments revaluation reserve

Balance 1 July	21,279	-	-	-
Revaluation (note 22(a))	(25,396)	21,279	-	-
Balance 30 June	<u>(4,117)</u>	<u>21,279</u>	<u>-</u>	<u>-</u>

Share-based payments reserve

Balance 1 July	278	-	278	-
Share based payment expense	368	278	368	278
Transfer to share capital (options exercised)	(280)	-	(280)	-
Balance 30 June	<u>366</u>	<u>278</u>	<u>366</u>	<u>278</u>

Foreign currency translation reserve

Balance 1 July	4,014	(5,002)	-	-
Currency translation differences arising during the year	(8,960)	9,016	-	-
Balance 30 June	<u>(4,946)</u>	<u>4,014</u>	<u>-</u>	<u>-</u>

Share revaluation reserve

Balance 1 July	-	-	6,465	6,465
Balance 30 June	<u>-</u>	<u>-</u>	<u>6,465</u>	<u>6,465</u>

(b) Nature and purpose of reserves

(i) Available-for-sale financial asset reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL and coal contract option with Pike River Coal Limited that are classified as available-for-sale financial 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) 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.

(iii) Share revaluation reserve

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

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

	Group		Parent	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Profit for the year	(3,255)	53,206	(10,792)	72,609
Depreciation and amortisation	15,670	13,632	294	302
Deferred tax	1,041	11,403	302	899
Fair value (gain)/loss on derivatives	1,576	(8,268)	-	-
Loss on investment in associate	144	2,773	-	-
Exploration and evaluation costs expensed	30,697	4,237	-	-
Write-off of investment in subsidiaries	-	-	6,738	-
Items classified as financing activities	794	1,626	-	-
Items classified as investing activities	-	(589)	(773)	12
Share of net loss of associate	11,470	3,914	-	-
Share based payment expense	368	278	368	278
Net foreign exchange differences	8,010	(3,697)	7,015	(8,543)
Non-cash dividend	-	-	(10,346)	(65,990)
Other	(367)	-	-	-
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	(7,343)	19,585	(835)	(242)
Increase/(decrease) in trade creditors	(11,410)	(5,084)	354	(89)
Net cash inflow from operating activities	<u>47,395</u>	<u>93,016</u>	<u>(7,675)</u>	<u>(764)</u>

30 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, capital commitments and borrowings 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, 23 and 24.

(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. Bank facility agreements require the Group to hedge a portion of its exposure to oil price risk. The premiums paid in relation to oil price hedging had all expired at balance date (2009: \$0.8 million). Fair value of these oil price options at 30 June 2009 were an asset of \$0.2 million.

(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.

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 has a significant credit risk exposure through its convertible bond to Pike River Coal Limited, however it has mitigated this risk by obtaining equal first ranking security (with other debt of up to \$20 million).

The Group has no reason to believe credit losses will arise from any of the financial instruments. However, the maximum amount of loss, which might possibly be realised, is the carrying value of the financial instrument.

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.

30 Financial risk management (continued)

(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 2010						
Secured borrowings	1,042	2,175	14,830	44,758	-	62,805
Payables	20,797	-	-	-	-	20,797
Total non-derivative liabilities	<u>21,839</u>	<u>2,175</u>	<u>14,830</u>	<u>44,758</u>	<u>-</u>	<u>83,602</u>

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 2009						
Payables	<u>29,353</u>	-	-	-	-	<u>29,353</u>
Total non-derivative liabilities	<u>29,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,353</u>

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 2010						
Payables	<u>1,361</u>	-	-	-	-	<u>1,361</u>
Total non-derivative liabilities	<u>1,361</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,361</u>

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 2009						
Payables	<u>1,168</u>	-	-	-	-	<u>1,168</u>
Total non-derivative liabilities	<u>1,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,168</u>

(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 a stable capital base and significant cash reserves from which it can pursue its growth aspirations.

30 Financial risk management (continued)

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity pricing, equity securities and currency risks. The Group's exposure to these risks is described in note 30(a).

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

An increase in the value of the New Zealand dollar against the United States dollar by 5% at balance date would be a decrease of \$4.8 million in Group profit before tax and a decrease by \$0.7 million in the foreign currency translation reserve in equity (2009: \$6.2 million decrease on profit before tax and \$1.4 million decrease in the foreign currency translation reserve).

An increase in the value of a barrel of oil at balance date by 10% would be an increase of approximately \$1.0 million in Group profit before tax for the year ended 30 June 2010 (2009: \$0.6 million increase).

An increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by \$1.4 million (2009: \$1.7 million increase), based on maintaining current cash balances.

An increase in the value of equity securities held by the Group at balance date, which are categorised as available for sale financial assets, by 5% would increase the available for sale financial asset reserve in equity by \$0.9 million.

(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 held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

30 Financial risk management (continued)

(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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- 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 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

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.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Group - At 30 June 2010				
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	18,923	-	4,638	23,561
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total balance \$'000
Group - At 30 June 2009				
Assets measured at fair value				
Financial assets at fair value through profit or loss				
Derivative financial instruments	-	190	-	190
Available-for-sale financial assets	-	-	-	-
Shares held in Pan Pacific Petroleum NL	48,829	-	-	48,829
Total assets	48,829	190	-	49,019

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:

- The fair value of the equity option component of the convertible bond with Pike River Coal Limited 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.

30 Financial risk management (continued)

- The fair value of the coal contract option with Pike River Coal Limited 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".

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

Group - At 30 June 2010

	Coal Option Contract	Convertible Bond - equity option	Total
	\$'000	\$'000	\$'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	<u>721</u>	<u>3,917</u>	<u>4,638</u>
Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period	-	(1,386)	(1,386)

The Group uses the Black-Scholes option valuation method with unobservable inputs in determining the fair value of the equity option component of the convertible bond at balance date. The fair value of the equity option is sensitive to the relevant inputs used. The impact of an increase in the historic volatility by 10% would increase the fair value by up to \$1.7 million and a 10% increase in the dividend yield would reduce the fair value by up to \$0.2 million.

(h) Financial instruments by category

Group	Held for trading *	Available for sale financial asset *	Loans and receivables	Other amortised cost	Total at carrying value
	\$'000	\$'000	\$'000	\$'000	\$'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
	<u>3,917</u>	<u>19,644</u>	<u>198,630</u>	<u>-</u>	<u>222,191</u>
Liabilities					
Payables	-	-	-	20,797	20,797
Borrowings	-	-	-	62,805	62,805
	<u>-</u>	<u>-</u>	<u>-</u>	<u>83,602</u>	<u>83,602</u>

30 Financial risk management (continued)

(h) Financial instruments by category(continued)

	Held for trading * \$'000	Available for sale financial asset * \$'000	Loans and receivables \$'000	Other amortised cost \$'000	Total at carrying value \$'000
At 30 June 2009					
Assets					
Cash and cash equivalents	-	-	174,753	-	174,753
Receivables	-	-	10,366	-	10,366
Derivative financial instruments	190	-	-	-	190
Other financial assets	-	48,829	43	-	48,872
	<u>190</u>	<u>48,829</u>	<u>185,162</u>	<u>-</u>	<u>234,181</u>
Liabilities					
Payables	-	-	-	29,353	29,353
	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,353</u>	<u>29,353</u>

* Assets of the Group that have been classified as held for sale or available for sale financial assets are remeasured at fair value at balance date. The gain or loss on remeasurement to fair value is recognised immediately in the income statement for held for sale assets and in other comprehensive income for available for sale financial assets. Gain or losses on available for sale financial assets are recognised in the income statement when the associated assets are sold or impaired.

Parent	Loans and receivables \$'000	Other 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
	<u>312,074</u>	<u>-</u>	<u>312,074</u>
Liabilities			
Payables	-	1,361	1,361
	<u>-</u>	<u>1,361</u>	<u>1,361</u>
At 30 June 2009			
Assets			
Cash and cash equivalents	145,616	-	145,616
Receivables and advances to related parties	180,974	-	180,974
	<u>326,590</u>	<u>-</u>	<u>326,590</u>
Liabilities			
Payables	-	1,168	1,168
	<u>-</u>	<u>1,168</u>	<u>1,168</u>

31 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: R A Radford; R F Meyer; P G Foley; A T N Knight; S J Rawson; D J Salisbury, D R Scoffham and P W Griffiths.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2010 and 30 June 2009 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-employ- ment benefits \$'000	Other long-term benefits \$'000	Termination benefits \$'000	Share-based payments \$'000	Total \$'000
2010						
Management	1,616	-	-	-	96	1,712
Directors	1,025	-	-	-	166	1,191
	<u>2,641</u>				<u>262</u>	<u>2,903</u>
2009						
Management	1,395	-	-	176	63	1,634
Directors	1,024	-	-	-	167	1,191
	<u>2,419</u>			<u>176</u>	<u>230</u>	<u>2,825</u>

(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 32.

Mr R A Radford and Mr R F Meyer are directors of Pike River Coal Limited (Pike), which is an associate company. Details of transactions with Pike during the year are set out in (e) below.

Mr R A Radford is a director of and holds shares in Pan Pacific Petroleum NL (PPP). The Group acquired 88 million shares in PPP during the prior year.

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.

(e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in note 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.

During the year ended 30 June 2010 the Group had the following transactions with associate Pike River Coal Limited ("Pike").

Short Term Funding

The Group provided short term funding to Pike, on commercial terms, of \$6 million that was drawn and repaid during the year. The Group received \$0.6 million in fees and interest from the short term funding arrangement.

31 Related party transactions (continued)

Share Placement and Rights Issue

The Group was an underwriter for and participated in the \$10 million placement and \$40 million rights issue to the extent of its existing 29.5% equity interest in the associate. Under the rights issue and placement the Group was issued with 16.4 million shares in the associate at an issue price of \$0.88. The Group received \$0.5 million in fees as an underwriter for the share issues.

Convertible Bond

The Group issued a convertible bond facility to Pike during the year with a face value of US\$28.9 million. The facility is for a term of 2 years up to 12 March 2012 at an annual interest rate of 10%. The facility is a first ranking secured debt ranked equally with other Pike debt of up to NZ\$20 million.

The convertible bond facility can be converted to shares in Pike at the option of NZOG or repaid in cash. If the bond is converted to shares the conversion price will be subject to standard anti-dilution clauses in the agreement that will reduce the conversion price if further securities are issued at a lower price.

At 30 June 2010 the US\$28.9 million (NZ\$41.7 million) facility was fully drawn by Pike, with US\$0.3 million (NZ\$0.5 million) of interest income earned by the Group to 30 June 2010.

Coal Contract Option

As part of the agreement to participate in the equity issue and to issue a convertible bond facility, Pike granted the Group an option to purchase an amount of Pike coal for the life of the mine. The coal contract option is exercisable at any time until 31 March 2012. The coal option enables the Group to enter into an offtake agreement to purchase Pike coking coal at market prices that are agreed on an annual basis. The maximum volumes which may be purchased under the offtake agreement would be the currently uncontracted coal quantities until 31 March 2013 and up to 30% of annual coal production for the remaining life of mine. At 30 June 2010 the coal option had not been exercised by the Group.

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

32 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 complete 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 has usually been 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.

32 Share-based payments (continued)

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 Oct 2004	28 Oct 2009	\$1.08	100.0	-	(100.0)	-	-	-
30 Jun 2005	30 Jun 2010	\$1.13	50.0	-	(50.0)	-	-	-
28 Oct 2005	20 Jan 2011	\$1.00	200.0	-	-	-	200.0	200.0
28 Nov 2005	28 Nov 2010	\$1.14	75.0	-	-	-	75.0	75.0
18 Jul 2006	18 Jul 2011	\$1.20	25.0	-	-	-	25.0	25.0
31 Jul 2006	31 Jul 2011	\$1.21	65.0	-	(20.0)	-	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	28 Oct 2009	\$1.00	10.0	-	(10.0)	-	-	-
25 Jan 2007	30 Jun 2010	\$1.00	5.0	-	(5.0)	-	-	-
25 Jan 2007	20 Jan 2011	\$1.00	20.0	-	-	-	20.0	20.0
25 Jan 2007	28 Nov 2010	\$1.00	7.5	-	(7.5)	-	-	-
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	150.0	-	-	-	150.0	150.0
08 Oct 2007	08 Oct 2012	\$1.22	75.0	-	(50.0)	-	25.0	25.0
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	-
12 Jan 2009	12 Jan 2014	\$1.53	100.0	-	-	-	100.0	-
30 July 2009	2 March 2014	\$1.57	-	200.0	-	-	200.0	-
30 July 2009	14 April 2014	\$1.67	-	300.0	-	-	300.0	-
30 July 2009	15 June 2014	\$1.87	-	150.0	-	-	150.0	-
30 July 2009	23 June 2014	\$1.91	-	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	-
			2,927.5	1,730.0	(242.5)	-	4,415.0	2,185.0
Weighted average exercise price			\$1.22	\$1.84	\$1.12	\$-	\$1.47	\$1.18

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 2010 was 33 cents to 41 cents per share.

32 Share-based payments (continued)

The model inputs for partly paid shares issued during the year ended 30 June 2010, 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: \$1.58 - \$1.69
- (d) expected price volatility of the company's shares: 40%
- (e) expected gross dividend per share: 4.3% - 4.5%
- (f) risk free interest rate on the issue date: 2.78% - 2.81%

The expected price volatility is based on the historic volatility.

33 Commitments and contingent assets & liabilities

(a) Capital expenditure commitments

As at 30 June 2010 the Group had certain capital expenditure commitments in relation to the participation in the Kupe development. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.

(b) 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.

(c) 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	
	2010 \$'000	2009 \$'000	2010 \$'000	2009 \$'000
Within one year	388	189	388	189
Later than one year and not later than five years	-	172	-	172
Later than five years	-	-	-	-
	388	361	388	361

During the year ended 30 June 2010 \$384,000 was recognised as an expense in the income statement in respect of operating leases (2009: \$202,000).

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\$19.0 million.

(d) Contingent assets

The Group has an overriding royalty 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 royalty 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.

(e) Contingent liabilities

As at 30 June 2010 the Company had no contingent liabilities (2009:\$Nil).

34 Earnings per share

	2010	Group
	Cents	2009
		Cents
(a) Basic earnings per share		
Basic earnings per share	(0.8)	13.7
(b) Diluted earnings per share		
Diluted earnings per share	(0.8)	13.7

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

	2010	Group
	\$'000	2009
		\$'000
Profit/(loss) for the year	(3,255)	53,206
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	(3,255)	53,206

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

	2010	Group
	Number	2009
	000s	Number
		000s
Weighted average number of ordinary shares used in calculating basic earnings per share	392,052	387,903
<i>Adjustments for calculation of diluted earnings per share:</i>		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	392,052	387,903



Audit report

To the shareholders of New Zealand Oil & Gas Limited

We have audited the financial statements on pages 1 to 47. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 7 to 17.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries 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 or any of its subsidiaries.

Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 1 to 47:
 - comply with New Zealand generally accepted accounting practice;
 - give a true and fair view of the financial position of the company and group as at 30 June 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.

Wellington