AnnualReport

2009

Contents

Chairman's Review

Dear Investor,

I am very pleased to comment upon another successful year for the company.

A solid financial result was achieved, with NZOG's profit after tax of NZ$53.2 million being mainly attributable to the ongoing success of the Tui area oil fields.

Significantly, the potential for additional reserves and sustained levels of production from the Tui project is to be addressed in the near term, with the drilling of at least two more wells within the permit area.

While it has yet to be reflected in the company's trading results, the major Kupe development was progressed very substantially during the year and when in production will provide NZOG with solid long-term income from production of gas, light oil and LPG.

During the financial year, a number of other reserves and production opportunities were rigorously evaluated as potential additions to the company's asset base, but so far none of them have been sufficiently attractive, as to pricing and/or technical risk, for the company to proceed with an acquisition of this type.

On the exploration front, however, NZOG has been active in expanding its position within New Zealand, primarily in the offshore Taranaki Basin, where it is pursuing a number of drilling targets which have potential to deliver additional reserves and production for the company in the short-medium term. These targets include prospects within the Tui permit area, Hoki, and the recently acquired interest in the permit containing the Albacore prospect.

NZOG is also evaluating the offshore Canterbury Barque permit through newly-acquired seismic data.

Oil and gas exploration and production is the primary focus of the company; notwithstanding that, NZOG has continued to support its investment stake in Pike River Coal, which despite some short-term setbacks, is on the road to full production from its coking coal mine.

Also, in another investment move, in December 2008 NZOG re-established itself as a key shareholder in Tui project partner Pan Pacific Petroleum, by purchasing a 14.9% shareholding on market, as being an attractive deployment of a relatively modest portion of NZOG's free cash reserves.

NZOG's strong cash position provided the company with a bulwark against the economic turmoil of the last twelve months, allowing the company to operate free of the tightened credit constraints which impacted adversely on many other companies.

Given the company's healthy profit result for the 2008/09 financial year, consistent with the Board's policy to distribute a reasonable portion of profits, directors have announced an annual dividend for 2009 of 5 cents per ordinary fully-paid share. A Dividend Reinvestment Plan was recently introduced, to enable shareholders to reinvest all or part of their dividends in additional NZOG shares.

Tony Radford
Chairman

CEO's Review

The past year was a busy, challenging and rewarding period for NZOG. Financially, we had a solid performance against a backdrop of unprecedented international turmoil.

There were two principal areas of focus for the company in the past year – securing new investments and optimising the value of our existing business.

SOLID BASE

As anticipated, Tui's daily production has slowly declined, with associated lower revenue. However, positive operating cash flow was retained throughout the year and our strong balance sheet protected NZOG from the global financial crisis. Very suddenly in late 2008, debt became a dirty word and cash was king. With no debt and a large cash balance, NZOG was in an enviable position.

At Tui there are a number of attractive near-field prospects and at least two of them will be drilled this summer. If the drilling is successful, any new discoveries could potentially be quickly developed through the existing facilities.

In April 2009, NZOG invested an additional NZ$12 million to support the Pike River Coal Ltd rights issue. Production delays at Pike have been disappointing, but coal is now being stockpiled ahead of the first shipment.

Considerable effort has gone into completing the commercial and legal arrangements needed to support production from the Kupe field, which is expected to begin production in late 2009. In particular, we were pleased to sign a long term sale agreement with Vector to take our share of the LPG production from Kupe.

We have also entered into a new, more flexible debt facility secured by the Kupe project. The NZ$75 million facility with Westpac will be drawn down to increase our capacity to fund new investments.

NEW INVESTMENTS

As well as the 14.9% strategic stake taken in Pan Pacific Petroleum, NZOG has been able to significantly expand its exploration portfolio. New opportunities secured in the past year include:

- 40% stake in the Albacore permit (Taranaki Basin)
- 40% stake in the Barque permit (Canterbury Basin)
- 18.9% stake in the Kahurangi permit (Taranaki Basin)
- 10% stake in the Hoki permit (Taranaki Basin)
- 100% of the new Gamma permit (Taranaki Basin)

NZOG is now involved in eight permits and will participate in the drilling of at least four wells this summer. A Priority in Time (PIT) application has also been made for acreage immediately to the north of Albacore.

New Zealand remains an attractive investment destination. However, the available opportunities going forward may not provide sufficient depth and breadth for a company of our size to be confident we can meet our growth objectives from New Zealand alone.

During the year NZOG demonstrated that it is prepared to look further afield by making a low cost investment in a consortium that is reviewing opportunities in Romania. Promising areas have been identified and further study work will put the consortium into a good position to consider bidding for acreage in an upcoming permit round.

OUTLOOK

Over the past year we have further strengthened our technical and commercial capabilities. Having quality people allows us to actively and systematically look for sensible value-adding investments across the spectrum from exploration, to development assets, producing fields and corporate acquisitions.

NZOG is pursuing growth off a solid base – optimising our existing assets and pursuing new opportunities.

We have a continuous screening process that is working well. There have been a lot of opportunities thrown up by the global financial crisis – but most do not stack up on close inspection. Several large investments were contemplated during the past year but were found after detailed evaluation to be technically deficient or financially unattractive.

NZOG has taken a careful, prudent approach, and will continue to do so. Our criteria for investment include:

- Proven hydrocarbon systems
- Quality business partners
- Suitably attractive fiscal regime
- Access to markets and infrastructure
- Manageable regulatory and political risk
- Manageable financial exposure
- Near term payback as opposed to long term horizons
- Establishing one or two new core areas (in addition to offshore Taranaki)

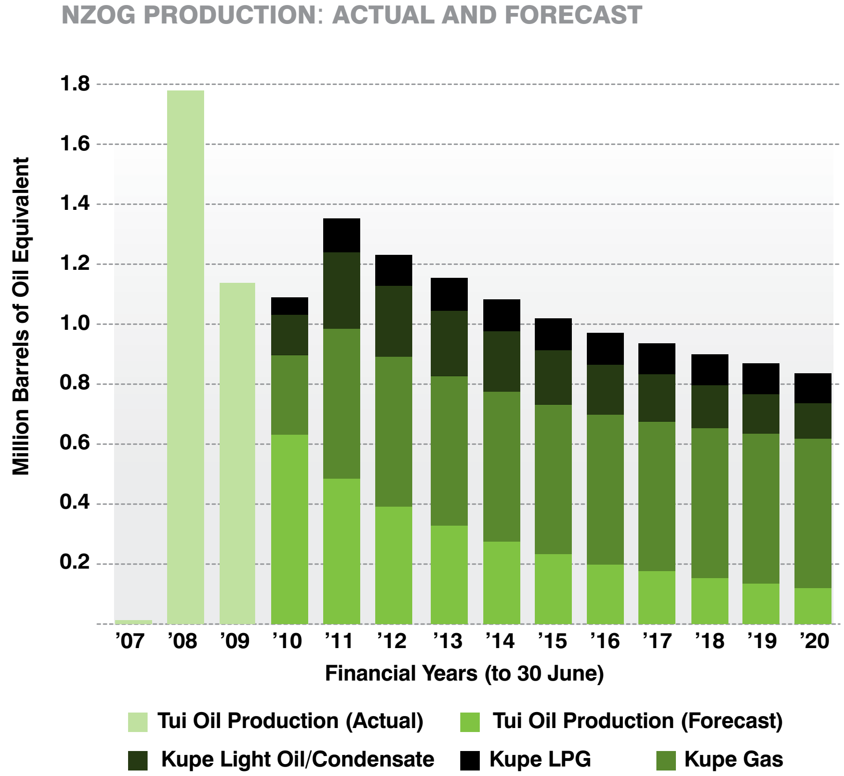
Within these definitions we have identified a range of potential investments and we are working hard to secure the best of them.

In our existing portfolio, we will soon have three new revenue streams from Kupe – gas, LPG and light oil - to supplement the oil revenue from Tui. In our expanded exploration portfolio, the summer drilling programme offers some exciting possibilities.

We are building on the success of the past two years as we pursue sensible growth opportunities to enhance shareholder value.

David Salisbury
Chief Executive

Reserves and Resources



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

NZOG RESERVES STATEMENT

Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2009	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui	3.3			3.3
Kupe	2.2	38	159	9.6
Total				12.9

* Million barrels of oil equivalent (mmboe) has been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures. There is no change to the Kupe reserve numbers used previously but slightly different conversion factors into mmboe have been adopted to align with the conversion factors used by the operator.

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

Oil and gas reserves are reported as at 30 June 2009, and in accordance with Section 10.11 of the NZSX Listing Rules. This Reserves Statement has been compiled by NZOG's Reservoir Engineering Manager Markus Schuh (who has a MSc. in Reservoir Engineering from Mining University, Leoben, Austria) and accurately reflects information supplied by the respective joint venture operators.

New Zealand Oil & Gas Limited Financial Statements

Statement of Financial Performance

For the year ended 30 June 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Revenue	4	**138,669**	222,765	**-**	-
Operating costs	5	**(31,776)**	(37,763)	**-**	-
Gross profit		**106,893**	185,002	**-**	-
Other income	4	**220**	11,344	**220**	551
Exploration and evaluation costs expensed		**(4,237)**	(14,706)	**-**	-
Other expenses	6	**(14,127)**	(7,356)	**(9,574)**	(8,205)
Result from operating activities		**88,749**	174,284	**(9,354)**	(7,654)
Finance costs		**(1,930)**	(11,903)	**(19)**	(1,083)
Finance income		**25,228**	2,515	**82,881**	41,449
Net finance income/(costs)	7	**23,298**	(9,388)	**82,862**	40,366
Share of profit/(loss) from associates		**(3,914)**	(351)	**-**	-
Profit before income tax and royalties		**108,133**	164,545	**73,508**	32,712
Royalties expense	8	**(23,796)**	(26,412)	**-**	-
Income tax expense	9	**(31,131)**	(40,890)	**(899)**	(6,847)
Profit for the year		**53,206**	97,243	**72,609**	25,865
Attributable to:					
Equity holders of Parent		**53,206**	97,243		
		53,206	97,243		
		Cents	Cents		
Earnings per share attributable to shareholders:					
Basic earnings per share	33	**13.7**	36.7		
Diluted earnings per share	33	**13.7**	24.1		
		Cents	Cents		
Net Tangible Asset Backing per share		**128**	112		

The above Statement of Financial Performance should be read with the accompanying notes on pages 10 – 39

New Zealand Oil & Gas Limited

Statement of Financial Position

As at 30 June 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
CURRENT ASSETS					
Cash and cash equivalents	11	**174,753**	256,461	**145,616**	219,232
Receivables and prepayments	12	**10,852**	55,690	**181,023**	52,115
Inventories	13	**637**	398	**-**	-
Current tax receivable		**-**	2,324	**-**	-
Derivative financial instruments		**190**	-	**-**	-
Total current assets		**186,432**	314,873	**326,639**	271,347
NON-CURRENT ASSETS					
Investments in associates	15	**74,781**	68,670	**3,671**	2,280
Evaluation and exploration assets	17	**5,236**	215	**2,968**	-
Oil and gas assets	18	**242,281**	204,499	**-**	-
Property, plant and equipment	19	**245**	306	**245**	306
Intangible assets	20	**105**	297	**105**	297
Other financial assets	14,21	**48,872**	3,543	**73,455**	76,955
Total non-current assets		**371,520**	277,530	**80,444**	79,838
Total assets		**557,952**	592,403	**407,083**	351,185
CURRENT LIABILITIES					
Payables	22	**29,353**	67,773	**1,168**	1,067
Current tax liabilities		**493**	-	**-**	-
Derivative financial instruments		**-**	6,146	**-**	-
Total current liabilities		**29,846**	73,919	**1,168**	1,067
NON-CURRENT LIABILITIES					
Borrowings	24	**-**	63,958	**-**	-
Net deferred tax liability/(asset)	23	**23,170**	12,202	**839**	(60)
Restoration and rehabilitation provision	25	**8,144**	11,322	**-**	-
Total non-current liabilities		**31,314**	87,482	**839**	(60)
Total liabilities		**61,160**	161,401	**2,007**	1,007
Net assets		**496,792**	431,002	**405,076**	350,178
EQUITY					
Share capital	26	**347,192**	345,989	**347,192**	345,989
Reserves	27	**25,571**	(5,002)	**6,743**	6,465
Retained earnings		**124,029**	90,015	**51,141**	(2,276)
Total equity		**496,792**	431,002	**405,076**	350,178

The above Statement of Financial Position should be read with the accompanying notes on pages 10 – 39

New Zealand Oil & Gas Limited

Statement of Changes in Equity

For the year ended 30 June 2009

GROUP	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Minority interest $'000	Total equity $'000
		Attributable to equity holders of New Zealand Oil & Gas Limited				
BALANCE AT 1 JULY 2007		**154,457**	(5,454)	**5,930**	34,112	**189,045**
Foreign currency translation differences	27	**-**	452	**-**	-	**452**
Net income recognised directly in equity		**-**	452	**-**	-	**452**
Profit for the year		**-**	-	**97,243**	-	**97,243**
Total recognised income and expense for the year		**-**	452	**97,243**	-	**97,695**
Shares issued	26	**679**	-	**-**	-	**679**
Options exercised	26	**190,843**	-	**-**	-	**190,843**
Partly paid shares issued	26	**10**	-	**-**	-	**10**
Dividend declared (5 cents per ordinary share)		**-**	-	**(13,158)**	-	**(13,158)**
Minority interest reduction on deconsolidation		**-**	-	**-**	(34,112)	**(34,112)**
		191,532	-	**(13,158)**	(34,112)	**144,262**
BALANCE AS AT 30 JUNE 2008		**345,989**	(5,002)	**90,015**	-	**431,002**
Fair value gain on available for sale financial assets	27	**-**	21,279	**-**	-	**21,279**
Foreign currency translation differences	27	**-**	9,016	**-**	-	**9,016**
Net income recognised directly in equity		**-**	30,295	**-**	-	**30,295**
Profit for the year		**-**	-	**53,206**	-	**53,206**
Total recognised income and expense for the year		**-**	30,295	**-**	-	**83,501**
Shares issued	26	**1,198**	-	**-**	-	**1,198**
Partly paid shares issued	26	**5**	-	**-**	-	**5**
Share based payment	27	**-**	278	**-**	-	**278**
Dividend declared (5 cents per ordinary share)		**-**	-	**(19,192)**	-	**(19,192)**
Supplementary dividend		**-**	-	**(610)**	-	**(610)**
Foreign investor tax credit		**-**	**-**	**610**	**-**	**610**
		1,203	278	**(19,192)**	-	**(17,711)**
BALANCE AS AT 30 JUNE 2009		**347,192**	25,571	**124,029**	-	**496,792**

The above Statement of Changes in Equity should be read with the accompanying notes on pages 10 – 39

PARENT	Notes	Issued capital $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
BALANCE AT 1 JULY 2007		**154,457**	6,465	**(14,983)**	145,939
Profit for the year		**-**	-	**25,865**	25,865
Total recognised income and expense for the year		**-**	-	**25,865**	25,865
Shares issued	26	**679**	-	**-**	679
Options exercised	26	**190,843**	-	**-**	190,843
Partly paid shares issued	26	**10**	-	**-**	10
Dividend declared (5 cents per ordinary share)		**-**	-	**(13,158)**	(13,158)
		191,532	-	**(13,158)**	178,374
BALANCE AS AT 30 JUNE 2008		**345,989**	6,465	**(2,276)**	350,178
Profit for the year		**-**	-	**72,609**	72,609
Total recognised income and expense for the year		**-**	-	**72,609**	72,609
Shares issued	26	**1,198**	-	**-**	1,198
Partly paid shares issued	26	**5**	-	**-**	5
Share based payment	27	**-**	278	**-**	278
Dividend declared (5 cents per ordinary share)		**-**	-	**(19,192)**	(19,192)
Supplementary dividend		**-**	-	**(610)**	(610)
Foreign investor tax credit		**-**	-	**610**	610
		1,203	278	**(19,192)**	(17,711)
BALANCE AS AT 30 JUNE 2009		**347,192**	6,743	**51,141**	405,076

The above Statement of Changes in Equity should be read with the accompanying notes on pages 10 – 39

New Zealand Oil & Gas Limited

Cash Flow Statement

For the year ended 30 June 2009

	Notes	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from customers		**161,961**	193,726	**-**	-
Interest received		**9,242**	2,713	**8,171**	1,737
Other revenue		**220**	447	**220**	447
Production and marketing expenditure		**(18,659)**	(14,003)	**-**	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		**(11,292)**	(7,335)	**(9,148)**	(5,787)
Royalties		**(32,149)**	-	**-**	-
Interest paid		**(7)**	(2,834)	**(7)**	(851)
Income taxes paid		**(16,300)**	(18,770)	**-**	-
Net cash inflow / (outflow) from operating activities	28	**93,016**	153,944	**(764)**	(4,454)
CASH FLOWS FROM INVESTING ACTIVITIES					
Repayment of loans by related parties		**-**	16,264	**-**	16,264
Proceeds from disposal of available for sale financial assets		**3,069**	119	**2,468**	119
Exploration and evaluation expenditure		**(8,942)**	(14,499)	**(2,805)**	-
Development expenditure		**(68,595)**	(90,087)	**-**	-
Purchase of available for sale financial assets		**(30,688)**	-	**-**	-
Purchase of shares in associate company		**(11,778)**	(17,506)	**(371)**	-
Purchase of property, plant and equipment		**(49)**	(572)	**(49)**	(572)
Loan from/(to) wholly owned subsidiaries		**-**	-	**(76,217)**	34,363
Net cash inflow / (outflow) from investing activities		**(116,983)**	(106,281)	**(76,974)**	50,174
CASH FLOWS FROM FINANCING ACTIVITIES					
Issues of shares		**1,205**	695	**1,205**	695
Proceeds from exercise of options		**14,163**	176,680	**14,163**	176,680
Borrowings		**-**	77,365	**-**	5,000
Repayment of borrowings		**(69,048)**	(59,735)	**-**	(15,000)
Dividend paid		**(19,789)**	(13,143)	**(19,789)**	(13,143)
Net derivative payments		**(691)**	(2,016)	**-**	-
Net cash inflow / (outflow) from financing activities		**(74,160)**	179,846	**(4,421)**	154,232
Net increase / (decrease) in cash and cash equivalents		**(98,127)**	227,509	**(82,159)**	199,952
Cash and cash equivalents at the beginning of the year		**256,461**	35,383	**219,232**	18,485
Cash decrease from deconsolidation of subsidiary company		**-**	(7,406)	**-**	-
Effects of exchange rate changes on cash and cash equivalents		**16,419**	975	**8,543**	795
Cash and cash equivalents at end of year	11	**174,753**	256,461	**145,616**	219,232

The above Cash Flow Statement should be read with the accompanying notes on pages 10 – 39

Notes to Financial Statements

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 2009 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 2009.

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 judgements

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

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

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration & 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 17 and 18)

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 23)

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statement of financial performance.

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.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial performance 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 revalued the investment in those companies to an amount not exceeding their underlying net assets.

(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 15).

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

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

(iii) Oil and gas joint ventures

Oil and gas joint ventures are those entities established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the ventures assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that control commences until the date that control ceases.

(C) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when deferred in equity 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 fair value reserve 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 statement of financial performance 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 statement of financial performance, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

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 statement of financial performance.

Cash flow hedges

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

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 equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the statement of financial performance in the same period that the hedged item affects the financial performance.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the statement of financial performance 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 statement of financial performance.

(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.

Repurchase of share capital (treasury shares)

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised in equity.

(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 statement of financial performance 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 or mines.

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.

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 statement of financial performance 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 statement of financial performance as incurred.

(iii) Depreciation

Depreciation is recognised in the statement of financial performance 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
- Motor vehicles	5 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 arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the statement of financial performance.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the additional net assets acquired at the date of exchange.

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.

(ii) Computer software

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

(I) Inventories

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

(J) Impairment

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

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the statement of financial performance.

(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 statement of financial performance.

(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 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 statement of financial performance. 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 statement of financial performance in the period.

(K) Goods and Services Tax (GST)

The statement of financial performance 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.

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 statement of financial performance 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 statement of financial performance and changes in the fair value of available-for-sale financial assets transferred from equity. 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 statement of financial performance. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the statement of financial performance using the effective interest method.

(R) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the statement of financial performance except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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 using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(S) Royalties expense

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

(T) Earnings per share

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

(U) Net tangible asset backing per share

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

(V) Segment reporting

A segment is a separately identifiable component of the Group that is engaged in providing related products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

(W) Determination of fair values

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 is determined by reference to their quoted bid price at the reporting date.

The fair value of share based payment transactions is determined by reference to the fair value of the equity instruments issued at the issue date.

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 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 January 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 - Vesting Conditions and Cancellations (Amended) (effective from annual periods beginning on or after 1 January 2009).
- NZ IFRS 2, Share Based Payments - Group cash-settled share based payment transactions (effective from annual periods beginning on or after 1 January 2010).
- NZ IFRS 3, Business Combinations (revised) - (effective from annual periods beginning on or after 1 July 2009).
- NZ IFRS 4, Insurance Contracts (amended) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IFRS 8, Operating Segments - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 1, Presentation of Financial Statements (revised) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 23, Borrowing costs (revised) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 27, Consolidated and Separate Financial Statements (amended) - (effective from annual periods beginning on or after 1 July 2009).
- 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 - (effective from annual periods beginning on or after 1 January 2009).
- NZ IFRS 7, Financial Instruments - Improved disclosure about financial instruments - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 39, Financial Instruments - Eligible Hedged items (Amended) - (effective from annual periods beginning on or after 1 July 2009).
- NZ IAS 39, Financial Instruments - Embedded derivatives (Amended) - (effective from annual periods beginning on or after 1 July 2009).

3. Segment information

The Group's primary operations are in the petroleum industry in New Zealand, with the exception of the Group's investment in associate company Pike River Coal Limited that operates in the coal industry in New Zealand.

4. Income

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Revenue				
Petroleum sales	**138,669**	222,765	**-**	-
Total revenue	**138,669**	222,765	**-**	-
Other income				
Gain on dilution of investment in subsidiary	**-**	10,793	**-**	-
Other income	**220**	551	**220**	551
Total other income	**220**	11,344	**220**	551
Total income	**138,889**	234,109	**220**	551

5. Operating costs

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Production and sales marketing costs	**18,539**	16,020	**-**	-
Amortisation of production asset	**13,529**	22,098	**-**	-
Movement in inventory	**(292)**	(355)	**-**	-
Total operating costs	**31,776**	37,763	**-**	-

6. Other expenses

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Classification of other expenses by nature				
Audit fees	**115**	97	**115**	97
Directors' fees	**472**	274	**472**	274
Legal fees	**910**	293	**877**	258
Consultants' fees	**2,197**	524	**2,149**	444
Employee expenses	**3,355**	2,980	**3,355**	2,980
Depreciation	**103**	100	**103**	100
Amortisation of intangible assets	**199**	124	**199**	124
Investment in subsidiary written off	**-**	-	**-**	2,226
Share based payment expense	**278**	-	**278**	-
Loss on dilution of investment in associate	**2,773**	-	**-**	-
Other	**3,725**	2,964	**2,026**	1,702
	14,127	7,356	**9,574**	8,205

Profit before income tax and royalties includes the following specific expenses:

	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Remuneration of auditors				
Auditors' remuneration to KPMG comprises:				
Audit of financial statements	**115**	97	**115**	97
Non-audit related services:				
Tax compliance services	**234**	206	**234**	206
Tax advisory services	**212**	57	**212**	57
Total remuneration of auditors	**561**	360	**561**	360

7. Net finance costs/(income)

	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
Finance costs				
Interest and finance charges paid/payable	**304**	3,393	**7**	1,083
Net losses on held to maturity assets	**-**	-	**12**	-
Net fair value loss on derivatives	**-**	6,494	**-**	-
Expiry and settlement of derivatives	**1,626**	2,016	**-**	-
Total finance costs	**1,930**	11,903	**19**	1,083
Finance income				
Interest income	**(9,391)**	(2,554)	**(8,348)**	(1,550)
Exchange gains on foreign currency balances	**(3,697)**	158	**(8,543)**	(794)
Net gains on available-for-sale financial assets	**(589)**	(119)	**-**	(119)
Net fair value gains on derivatives	**(8,268)**	-	**-**	-
Dividend income	**(3,283)**	-	**(65,990)**	(38,986)
Total finance income	**(25,228)**	(2,515)	**(82,881)**	(41,449)
Net finance costs/(income)	**(23,298)**	9,388	**(82,862)**	(40,366)

8. Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui oil field.

9. Income tax expense

	Group 2009 $'000	Group 2008 $'000	Parent 2009 $'000	Parent 2008 $'000
(a) Income tax expense				
Current tax	**19,728**	16,027	**-**	-
Deferred tax	**11,403**	24,964	**899**	6,847
Under (over) provided in prior years	**-**	(101)	**-**	-
Total income tax expense/(benefit)	**31,131**	40,890	**899**	6,847

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
(b) Income tax expense calculation				
Profit before income tax expense and royalties	**108,133**	164,545	**73,508**	32,712
Less: royalties expense	**(23,796)**	(26,412)	**-**	-
Profit before income tax expense	**84,337**	138,133	**73,508**	32,712
Tax at the New Zealand tax rate of 30% (2008 - 33%)	**25,301**	45,584	**22,052**	10,795
Tax effect of a change in tax rates	**-**	(1,220)	**-**	6
Tax effect of amounts which are not deductible(taxable):				
Share of associates losses	**1,174**	116	**-**	-
Imputation credits received	**(1,423)**	-	**-**	-
Foreign exchange adjustments	**2,433**	(204)	**-**	-
Dividends from wholly owned subsidiaries	**-**	-	**(19,797)**	(12,865)
Other permanent adjustments	**1,965**	(3,320)	**106**	644
	29,450	40,956	**2,361**	(1,420)
Under/(over) provision in prior years	**1,681**	(66)	**-**	17
Losses utilised/(transferred)	**-**	-	**(1,462)**	8,250
Income tax expense	**31,131**	40,890	**899**	6,847

On 21 May 2007, the Taxation (KiwiSaver and Company Tax Rate Amendments) Act 2007 was given royal assent meaning that for the 2008/09 income tax year the New Zealand company tax rate changed from 33% to 30%. 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, in 2008.

10. Imputation credits

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Imputation credit account				
Balance at beginning of year	**12,409**	-	**764**	-
Tax payments, net of refunds	**16,300**	18,350	**-**	-
Credits attached to dividend distributions	**(8,842)**	(5,941)	**(8,842)**	(5,941)
Credits attached to dividends received	**1,423**	-	**11,645**	6,705
Balance at end of year	**21,290**	12,409	**3,567**	764
Dividend withholding payment account				
Balance at beginning of year	**-**	-	**-**	-
Withholding tax paid on dividends received	**-**	1,458	**-**	1,458
Withholding tax attached to dividend distributions	**-**	(1,458)	**-**	(1,458)
Balance at end of year	**-**	-	**-**	-

11. Cash and cash equivalents

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Cash at bank and in hand	**12,253**	47,680	**186**	43,184
Deposits at call	**42,187**	153,477	**29,767**	120,744
Short term deposits	**120,313**	55,304	**115,663**	55,304
Total cash and cash equivalents	**174,753**	256,461	**145,616**	219,232

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $94 million denominated in US dollars; NZ dollar equivalent $146 million (2008: US dollars $49 million; NZ dollar equivalent $64 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 2.80% (2008: 2.00% and 8.65%).

(b) Restriction of use

In respect of the Kupe project finance facility, the Company has agreed that deposits of NZ$12.5 million are held in escrow by Westpac Banking Corporation until the project completion is achieved. These funds can be committed to the Kupe project earlier should certain conditions be met.

In respect of the Tui project finance facility, the Company has agreed that deposits of US$7.6 million (NZ dollar equivalent $11.8 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade receivables	**9,936**	31,375	**3**	11
Interest receivable	**294**	140	**218**	42
Advances to related parties	**-**	-	**180,617**	37,758
Share option proceeds receivable	**-**	14,163	**-**	14,163
Prepayments	**486**	9,892	**49**	19
Other	**136**	120	**136**	122
Total receivables and prepayments	**10,852**	55,690	**181,023**	52,115

Trade receivables denominated in currencies other than the presentation currency comprise $3.7 million denominated in US dollars and $2.6 million denominated in AUD; Total NZ dollar equivalent $9.0 million (2008: $22 million denominated in US dollars; NZ dollar equivalent $29 million).

13. Inventories

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Oil stock, at cost	**605**	366	**-**	-
Field operation consumables, at cost	**32**	32	**-**	-
Total inventories	**637**	398	**-**	-

14. 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 2009 %	Equity holding 2008 %
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 (previously NZOG 38484 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 (previously NZOG Resources 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)

15. Investments in associates

(a) Carrying amounts

Information relating to associates is set out below.

Name of company	Principal activity	Ownership interest 2009 %	Ownership interest 2008 %	Group At 2009 $'000	Group At 2008 $'000	Parent At 2009 $'000	Parent At 2008 $'000
Listed							
Pike River Coal Limited(PRCL)	Coal mine development	**30**	31	**74,781**	66,390	**3,671**	-
Unlisted							
NZOG Nominees Limited	Investment	**-**	50	**-**	2,280	**-**	2,280
				74,781	68,670	**3,671**	2,280

Each of the above associates is incorporated in New Zealand and have a balance date of 30 June.

During the year the Group disposed of all the ordinary shares held in NZOG Nominees Limited and the redeemable preference shares held by the Group were reclassified as available for sale financial asset before being redeemed.

On the 20 July 2007 the Group's investment in PRCL was diluted from 54% to 31% with PRCL being floated on the NZSX and ASX. From that date the investment in PRCL is shown as an associate.

The Group's holding in PRCL comprises 102.6 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 PRCL as at 30 June 2009 was $125.8 million.

(b) Movements in carrying amounts

	Group At	
	2009 $'000	**2008 $'000**
Carrying amount at the beginning of the year	**68,670**	2,280
Share of net loss of associate	**(3,914)**	(351)
Loss on dilution of investment in associate	**(2,773)**	-
Purchase of shares in associate	**11,778**	17,506
Acquired associate shares on maturity of convertible note	**3,300**	-
Reclassification of NZOG Nominees Limited shares to available-for-sale financial asset	**(2,280)**	-
Recognition of PRCL as an associate investment	**-**	49,235
Carrying amount at the end of the financial year	74,781	68,670

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

	Assets $'000	Liabilities $'000	Revenues $'000	Profit/(Loss) $'000
2009				
Pike River Coal Limited	306,367	53,474	5	(13,018)
2008				
Pike River Coal Limited	265,040	47,187	10	(1,144)
NZOG Nominees Limited	4,911	2,671	78	38

16. 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:

		Interests held by the Group	
Name of entity	**Notes**	**2009**	**2008**
PML 38146 - Kupe		**15.0%**	15.0%
PMP 38158 - Tui		**12.5%**	12.5%
PEP 38483 - Aihe (previously Hector)		**18.9%**	18.9%
PEP 38483 - Aihe extension (previously Hector South)		**12.5%**	12.5%
PEP 38499 - Toke	(i)	**-%**	12.5%
PEP 38259 - Barque	(ii)	**40.0%**	-%
PEP 51311 - Gamma	(iii)	**100.0%**	-%
PEP 51321 - Kahurangi	(iv)	**18.9%**	-%

(i) PEP 38499 Toke was relinquished on 7 November 2008.

(ii) The Group acquired 40% interest in PEP 38259 (Barque) on 12 November 2008, which is conditional on the receipt of consent from the Minister of Energy. Consent was given by the Minister of Energy subsequent to balance date.

(iii) PEP 51311 Gamma was granted by the Ministry of Economic Development on 27 January 2009.

(iv) PEP 51321 Kahurangi was granted by the Ministry of Economic Development on 19 March 2009.

	Group 2009 $'000	Group 2008 $'000
Share of oil and gas joint ventures' assets and liabilities		
Short term securities and cash deposits	**11,997**	4,300
Trade receivables *	**904**	2,319
Inventory	**637**	398
Prepayments	**-**	9,430
Petroleum interests **	**269,985**	215,484
Total current and non-current assets	**283,523**	231,931
Current liabilities	**10,190**	39,437
Non-current liabilities	**-**	-
Total current and non-current liabilities	**10,190**	39,437
Net assets held in oil and gas joint ventures	**273,333**	192,494
Share of oil and gas joint ventures' revenue, expenses and results		
Revenues *	**328**	1,011
Expenses	**(24,206)**	(30,284)
Profit before income tax	**(23,878)**	(29,273)

* Revenue receivable from Tui petroleum sales (see note 4) is not included as it is earned directly by wholly owned subsidiary Stewart Petroleum Company Limited.
** Prior to amortisation of production assets.

17. Exploration and evaluation assets

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening balance	**215**	2,570	**-**	-
Expenditure capitalised	**9,338**	13,146	**2,968**	-
Revaluation of USD exploration and evaluation assets	**(80)**	(13)	**-**	-
Expenditure written off	**(4,237)**	(14,706)	**-**	-
Transferred to development assets	**-**	(782)	**-**	-
Closing balance	**5,236**	215	**2,968**	-

18. Oil and gas assets

(a) Development assets

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening balance	**166,257**	219,100	**-**	-
Transferred from exploration assets	**-**	782	**-**	-
Expenditure capitalised	**42,425**	102,348	**-**	-
Revaluation of USD development assets	**-**	123	**-**	-
Borrowing costs capitalised	**2,367**	5,642	**-**	-
Expiry of commodity premium	**(75)**	-	**-**	-
Abandonment provision	**(3,834)**	(2,360)	**-**	-
Deconsolidation of subsidiary assets	**-**	(100,014)	**-**	-
Transferred to production assets	**-**	(59,364)	**-**	-
Closing balance	**207,140**	166,257	**-**	-

Includes borrowing costs capitalised of $9.3 million at 30 June 2009 (2008: $6.9 million).

(b) Production assets

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Opening balance	**38,242**	-	**-**	-
Transfer from development assets	**-**	59,364	**-**	-
Expenditure capitalised	**3,895**	732	**-**	-
Borrowing costs capitalised	**-**	236	**-**	-
Amortisation for the year	**(13,529)**	(22,098)	**-**	-
Revaluation of USD production assets	**7,566**	(16)	**-**	-
Expiry of commodity premium	**(860)**	(538)	**-**	-
Abandonment provision	**(173)**	562	**-**	-
Closing balance	**35,141**	38,242	**-**	-

Includes borrowing costs capitalised of $2.2 million at 30 June 2009 (2008: $2.5 million).

Total oil and gas assets	**242,281**	204,499	**-**	-

During the year there has been a change in estimated future expenditure on the Tui production asset held by the company with the joint venture partners' decision in October 2008 to defer the proposed additional Tui 4H development well.

Amortisation expenditure for the year reflects a change in the amortisation rate prospectively from the date of change in estimate.

19. Property, plant and equipment

GROUP	Land & Leasehold improvement $'000	Fixtures and fittings $'000	Motor vehicles $'000	Computer Hardware & Technical Equipment $'000	Total $'000
At 1 July 2007					
Cost	89	114	18	434	655
Accumulated depreciation	(1)	(28)	(6)	(226)	(261)
Net book value	88	86	12	208	394
Year ended 30 June 2008					
Opening net book value	88	86	12	208	394
Additions	121	42	-	79	242
Deconsolidation of subsidiary assets	(65)	(19)	(12)	(135)	(231)
Depreciation charge	(12)	(21)	-	(66)	(99)
Closing net book value	132	88	-	86	306
At 30 June 2008					
Cost	145	132	-	248	525
Accumulated depreciation	(13)	(44)	-	(162)	(219)
Net book value	132	88	-	86	306
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	120	76	-	49	245
At 30 June 2009					
Cost	145	134	-	288	567
Accumulated depreciation	(25)	(58)	-	(239)	(322)
Net book value	120	76	-	49	245

PARENT	Leasehold improvement $'000	Fixtures and fittings $'000	Computer Hardware & Technical Equipment $'000	Total $'000
At 1 July 2007				
Cost	24	90	172	286
Accumulated depreciation	(1)	(23)	(100)	(124)
Net book amount	23	67	72	162
Year ended 30 June 2008				
Opening net book value	23	67	72	162
Additions	121	43	80	244
Disposals	-	(1)	-	(1)
Depreciation charge	(12)	(21)	(66)	(99)
Closing net book value	132	88	86	306
At 30 June 2008				
Cost	145	132	248	525
Accumulated depreciation	(13)	(44)	(162)	(219)
Net book value	132	88	86	306
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	120	76	49	245
At 30 June 2009				
Cost	145	134	288	567
Accumulated depreciation	(25)	(58)	(239)	(322)
Net book value	120	76	49	245

20. Intangible assets

	Group and Parent	
	2009 $'000 Computer software	2008 $'000 Computer software
At 1 July		
Intangible assets (at cost)	**521**	193
Less: Accumulated amortisation	**(224)**	(100)
Net book value	**297**	93
Movement		
Opening net book value	**297**	93
Additions	**7**	328
Amortisation charge	**(199)**	(124)
Closing net book value	**105**	297
At 30 June		
Intangible assets (at cost)	**528**	521
Less: Accumulated amortisation	**(423)**	(224)
Net book value	**105**	297

21. Other financial assets

	Notes	Group		Parent	
		2009 $'000	2008 $'000	2009 $'000	2008 $'000
Held-to-maturity investments	(a)	**-**	3,500	**-**	3,500
Available-for-sale financial assets	(b)	**48,829**	-	**-**	-
Refundable security deposits	(c)	**43**	43	**-**	-
Shares in subsidiaries (note 14)		**-**	-	**73,455**	73,455
Total other financial assets		**48,872**	3,543	**73,455**	76,955

(a) Pike River Coal Limited

As at 31 December 2008, the held-to-maturity investments were converted into shares in Pike River Coal Limited. (see note 15(b))

(b) Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is recorded at market value of $48.8 million and is classified for accounting purposes as an available-for-sale financial asset. The cost of purchasing this investment during the year was $30.7 million.

(c) 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 program commitments being met.

22. Payables

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Trade payables	**10,721**	39,717	**531**	280
Employee entitlements	**172**	201	**172**	201
Accrued expenses	**384**	771	**384**	518
Interest payable	**-**	604	**-**	-
Royalties payable	**17,995**	26,412	**-**	-
Other payables	**81**	68	**81**	68
Total payables	**29,353**	67,773	**1,168**	1,067

Payables denominated in currencies other than the presentation currency comprise $1.2 million of payables denominated in US dollars; NZ dollar equivalent $1.9 million. (2008: US dollars $2.1 million; NZ dollar equivalent $2.7 million)

23. Deferred tax assets and liabilities

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
The balance comprises temporary differences attributable to:				
Deferred tax assets				
Employee benefits	**51**	60	**51**	60
Non-deductible provisions	**2,444**	3,396	**-**	-
Production assets	**-**	346	**-**	-
Total deferred tax assets	**2,495**	3,802	**51**	60
Deferred tax liabilities				
Exploration assets	**(1,398)**	(65)	**(890)**	-
Development assets	**(20,394)**	(13,126)	**-**	-
Production assets	**(225)**	-	**-**	-
Deferred expenditure	**(3,434)**	(2,813)	**-**	-
Derivatives	**(214)**	-	**-**	-
Total deferred tax liabilities	**(25,665)**	(16,004)	**(890)**	-
Net deferred tax assets/(liabilities)	**(23,170)**	(12,202)	**(839)**	60
Movements:				
Net deferred tax asset/(liability) at 1 July	**(12,202)**	12,966	**60**	6,907
Charged/(credited) to the income statement (note 9)	**(11,403)**	(24,964)	**(899)**	(6,847)
Foreign exchange differences	**435**	(204)	**-**	-
Net deferred tax asset/(liability) at 30 June	**(23,170)**	(12,202)	**(839)**	60

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.

24. Borrowings

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Secured				
Bank loans	**-**	63,958	**-**	-
Total non-current borrowings	**-**	63,958	**-**	-

Further information relating to maturity dates and contractual repayment terms of the borrowings is set out in note 29.

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 2009 the Letter of Credit facility was US$7.6 million (30 June 2008: US$12.5 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility is secured over the Group's assets other than those relating to PEP 38483 Hector, PML 38146 Kupe and the investments in Pike River Coal Limited.

During the year ended 30 June 2008 the Group established loan facilities of NZ$147.5 million available to fund the Kupe development. The facilities are a project facility of NZ$125 million, cost overrun facility of NZ$12.5 million and a letter of credit facility of NZ$10 million. Drawings from the facility can be in NZD, AUD or USD. At balance date all drawings on the project facility had been repaid (30 June 2008: $64 million NZD equivalent drawn), while the NZ$10 million Letter of Credit was fully drawn. The cost overrun facility was cancelled on 11 July 2008.

Subsequent to balance date NZOG and Westpac Banking Corporation have agreed subject to documentation that the facility is amended so that a $75 million facility limit is available for funding the remaining Kupe project costs and for general working capital purposes.

This facility is secured over the Group's Kupe assets. The facility is repayable prior to 31 March 2015.

25. Restoration and rehabilitation provision

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Restoration and rehabilitation provision	**8,144**	11,322	**-**	-
Total non-current provisions	**8,144**	11,322	**-**	-

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

	2009 $'000	2008 $'000
Group		
Carrying amount at start of year	**11,322**	13,930
Additional/(reduction) in provisions recognised	**(4,382)**	9,345
Increase/(decrease) provision due to revision of passage of time	**406**	(11,116)
Decrease with deconsolidation of subsidiary	**-**	(844)
Revaluation of USD provisions	**798**	7
Carrying amount at end of year	**8,144**	11,322

26. Contributed equity of the Group and Parent

(a) Share capital

	2009 Shares 000s	2008 Shares 000s	2009 $'000	2008 $'000
Ordinary shares				
Fully paid shares	**384,931**	389,654	**347,163**	348,747
Partly paid shares	**2,927**	3,569	**29**	36
Treasury shares elimination	**-**	(5,865)	**-**	(2,794)
	387,858	387,358	**347,192**	345,989

(b) Movements in ordinary share capital:

	2009 Shares 000s	2008 Shares 000s	2009 $'000	2008 $'000
Opening	**387,358**	258,630	**345,989**	154,457
Issues of ordinary shares during the year				
Shares issued	**-**	539	**1,198**	679
Exercise of options	**-**	127,229	**-**	190,843
Partly paid paid shares issued	**500**	960	**5**	10
Closing balance of ordinary shares issued	**387,858**	387,358	**347,192**	345,989

(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 31.

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.

(e) Options

During the year ended 30 June 2008 127,228,716 of the 30 June 2008 options (exercise price of NZ$1.50) and 150,000 unlisted options, issued as part of an incentive program, were exercised.

(f) Treasury shares elimination

Treasury shares are the Company's interest in shares held in its own capital. The elimination represents the cost of these shares held within the Group. On 25 July 2008 the Board of New Zealand Oil & Gas Limited cancelled all the treasury shares held in its own capital.

27. Reserves

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Reserves				
Available-for-sale financial asset revaluation reserve	**21,279**	-	**-**	-
Share-based payments reserve	**278**	-	**278**	-
Foreign currency translation reserve	**4,014**	(5,002)	**-**	-
Share revaluation	**-**	-	**6,465**	6,465
Total reserves	**25,571**	(5,002)	**6,743**	6,465
Movements:				
Available-for-sale financial asset revaluation reserve				
Balance 1 July	**-**	-	**-**	-
Revaluation (note 21(b))	**21,279**	-	**-**	-
Balance 30 June	**21,279**	-	**-**	-
Share-based payments reserve				
Balance 1 July	**-**	-	**-**	-
Share based payment expense	**278**	-	**278**	-
Balance 30 June	**278**	-	**278**	-
Foreign currency translation reserve				
Balance 1 July	**(5,002)**	(5,454)	**-**	-
Currency translation differences arising during the year	**9,016**	452	**-**	-
Balance 30 June	**4,014**	(5,002)	**-**	-
Share revaluation reserve				
Balance 1 July	**-**	-	**6,465**	6,465
Balance 30 June	**-**	-	**6,465**	6,465

Nature and purpose of reserves

(i) Available-for-sale financial asset reserve

This reserve relates to the equity investment in Pan Pacific Petroleum NL that is classified as an available-for-sale financial assets. The reserve represents changes in the fair value and exchange differences of the investment from the original cost. The available-for-sale financial asset reserve is described in note 2(D). Amounts are recognised in the statement of financial performance 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, as described in note 2(C). The reserve is recognised in profit and loss when the net investment is disposed of.

(iii) Share revaluation reserve

This reserve relates to 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 revalued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the statement of financial performance when the wholly owned subsidiary is disposed of.

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

	Group		Parent	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Profit for the year	**53,206**	97,243	**72,609**	25,865
Depreciation and amortisation	**13,632**	22,198	**302**	223
Deferred tax	**11,403**	24,964	**899**	6,847
Fair value (gain)/loss on derivatives	**(8,268)**	6,493	**-**	-
Gain on dilution of investment in subsidiary	**-**	(10,793)	**-**	-
Loss on dilution of investment in associate	**2,773**	-	**-**	-
Petroleum and coal exploration expenditure provided for or written off	**4,237**	14,706	**-**	-
Write-off/(back) or provision for investment in subsidiaries	**-**	-	**-**	2,226
Items classified as financing activities	**1,626**	2,016	**-**	-
Items classified as investing activities	**(589)**	(119)	**12**	(119)
Share of net loss of associate	**3,914**	351	**-**	-
Share based payment expense	**278**	-	**278**	-
Net foreign exchange differences	**(3,697)**	(548)	**(8,543)**	(795)
Non-cash dividend	**-**	-	**(65,990)**	(38,986)
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**19,585**	(29,648)	**(242)**	986
Increase/(decrease) in trade creditors	**(5,084)**	28,718	**(89)**	(701)
Decrease in operating assets due to deconsolidation of subsidiary	**-**	(1,637)	**-**	-
Net cash inflow from operating activities	**93,016**	153,944	**(764)**	(4,454)

29. Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, oil sales, 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, 22 and 23.

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. 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 are included in the carrying value of development and production assets at a cost of $0.8 million (2008: $1.5 million). Fair value of these oil price options at balance date is an asset of $0.2 million (2008: Liability of $6.1 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

Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short term cash deposits and trade receivables.

No collateral is required by the Group to support financial instruments subject to credit risk. The Group places its cash and short-term investments with and through financial institutions with the intention of limiting the amount of credit exposure to any one financial institution.

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 carrying amount of financial assets represents the Group's maximum credit exposure.

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

The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has credit lines in place to cover potential shortfalls. It is the Group's policy to provide credit and liquidity enhancement only to wholly owned subsidiaries.

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 30 June 2009	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
Payables	29,353	-	-	-	-	29,353
Total non-derivative liabilities	29,353	-	-	-	-	29,353
Commodity price contracts						
Net (outflow)/inflow	-	-	-	-	-	-

GROUP 30 June 2008	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
Secured borrowings	-	-	19,019	44,939	-	63,958
Payables	67,773	-	-	-	-	67,773
Total non-derivative liabilities	67,773	-	19,019	44,939	-	131,731
Commodity price contracts						
Net (outflow)/inflow	(2,701)	(1,576)	(1,998)	-	-	(6,275)

PARENT 30 June 2009	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
Payables	1,168	-	-	-	-	1,168
Total non-derivative liabilities	1,168	-	-	-	-	1,168

PARENT 30 June 2008	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
Payables	1,067	-	-	-	-	1,067
Total non-derivative liabilities	1,067	-	-	-	-	1,067

(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 will apply 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.

(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 29(a).

The Group's estimated short term impact 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 $6.2 million in Group profit before tax and a decrease by $1.4 million in the foreign currency translation reserve in equity (2008: $0.7 million decrease on profit before tax and $2.6 million increase 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 $0.6 million in Group profit before tax for the year ended 30 June 2009 (2008: $2.4 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 $1.7 million (2008: $2.1 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 catagorised as available for sale financial assets, by 5% would increase the available for sale financial asset reserve in equity by $2.4 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.

The fair value of forward exchange contracts used as economic hedges of oil sales at 30 June 2009 was an asset of $0.2 million (2008: Liability of $6.1 million) recognised in fair value derivatives.

(g) Financial instruments by category

GROUP	Held for trading $'000	Available for sale financial asset $'000	Loans and receivables $'000	Held to maturity investments $'000	Other amortised cost $'000	Total fair value and 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
	190	48,829	185,162	-	-	234,181
Liabilities						
Payables	-	-	-	-	29,353	29,353
	-	-	-	-	29,353	29,353
At 30 June 2008						
Assets						
Cash and cash equivalents	-	-	256,461	-	-	256,461
Receivables	-	-	45,798	-	-	45,798
Other financial assets	-	-	43	3,500	-	3,543
	-	-	302,302	3,500	-	305,802
Liabilities						
Payables	-	-	-	-	67,773	67,773
Derivative financial instruments	6,146	-	-	-	-	6,146
Borrowings	-	-	-	-	63,958	63,958
	6,146	-	-	-	131,731	137,877

PARENT	Loans and receivables $'000	Held to maturity investments $'000	Other amortised cost $'000	Total fair value and carrying value $'000
At 30 June 2009				
Assets				
Cash and cash equivalents	145,616	-	-	145,616
Receivables and advances to related parties	180,974	-	-	180,974
	326,590	-	-	326,590
Liabilities				
Payables	-	-	1,168	1,168
	-	-	1,168	1,168
At 30 June 2008				
Assets				
Cash and cash equivalents	219,232	-	-	219,232
Receivables and advances to related parties	52,096	-	-	52,096
Other financial assets	-	3,500	-	3,500
	271,328	3,500	-	274,828
Liabilities				
Payables	-	-	1,067	1,067
	-	-	1,067	1,067

30. 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 and D R Scoffham.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2009 and 30 June 2008 is set out below. The key management personnel are all the management and Directors (executive and non-executive) of the Company.

	Short-term benefits $'000	Post-employment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Share-based payments $'000	Total $'000
2009						
Management	1,395	-	-	176	63	1,634
Directors	1,024	-	-	-	167	1,191
	2,419	-	-	176	230	2,825
2008						
Management	851	-	-	-	-	851
Directors	914	-	-	-	-	914
	1,765	-	-	-	-	1,765

(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 31.

Mr R A Radford and R F Meyer are directors of and hold shares in Pike River Coal Limited (PRCL), which is an associate company. During the year transactions with PRCL included the underwriting of $12 million for the $41 million rights issue and the conversion into shares of convertible notes that matured on 31 December 2008.

A Director, 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 year.

A Director, Mr P G Foley, is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison provides legal services 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 and 16 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 2009 the convertible notes the Group held with associate company Pike River Coal Limited (PRCL), converted into shares on 31 December 2008. Before the conversion date the Group sold 0.2 million convertible notes and received interest income from the convertible notes of $0.2 million. The remaining 3.3 million notes converted at a conversion price of $0.91. After the issue of the new shares the Group's interest in PRCL reduced from 31% to 30%.

During the year the Group partly underwrote the NZ$41 million renounceable pro rata rights issue by associate company PRCL. Under the rights issue the Group acquired a further 17 million shares and 24 April 2011 bonus options for $0.70 per share. After the rights issue the Group's interest in PRCL was 30%.

The 30 June 2009 options the Group held in associate company PRCL lapsed at balance date without being exercised.

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

(f) Directors and specified executives

Disclosures relating to Directors and specified executives are set out in the statutory information.

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

31. 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 set at the lesser of:

- a 20% premium to the Average Market Price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and
- the last sale price of the Company's ordinary shares on the Business Day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Company's ordinary shares over the 20 Business Days prior to the Final Date).

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

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

3. Rights

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

Movements in the partly paid shares outstanding and their related weighted average exercise price are as follows:

Issue date	Final date	Issue price	Balance at start of the period 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	30 Jun 2009	$1.08	500.0	-	(500.0)	-	-	-
28 Oct 2004	28 Oct 2009	$1.08	100.0	-	-	-	100.0	100.0
30 Jun 2005	30 Jun 2009	$1.13	150.0	-	(150.0)	-	-	-
30 Jun 2005	30 Jun 2010	$1.13	50.0	-	-	-	50.0	50.0
23 Oct 2005	23 Oct 2010	$0.87	105.0	-	(105.0)	-	-	-
23 Oct 2005	23 Oct 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	150.0	-	(85.0)	-	65.0	65.0
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	30 Jun 2009	$1.00	113.5	-	(113.5)	-	-	-
25 Jan 2007	23 Oct 2010	$1.09	20.0	-	(20.0)	-	-	-
25 Jan 2007	28 Oct 2009	$1.00	10.0	-	-	-	10.0	10.0
25 Jan 2007	30 Jun 2010	$1.00	5.0	-	-	-	5.0	5.0
25 Jan 2007	20 Jan 2011	$1.00	20.0	-	-	-	20.0	-
25 Jan 2007	28 Nov 2010	$1.00	7.5	-	-	-	7.5	7.5
25 Jan 2007	18 Jul 2011	$1.00	2.5	-	-	-	2.5	2.5
25 Jan 2007	31 Jul 2011	$1.00	15.0	-	(15.0)	-	-	-
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
25 Jan 2007	01 Feb 2012	$1.00	2.5	-	(2.5)	-	-	-
01 Feb 2007	01 Feb 2012	$0.91	25.0	-	(25.0)	-	-	-
02 Apr 2007	02 Apr 2012	$1.06	500.0	-	-	-	500.0	500.0
22 Jul 2007	22 Jul 2012	$1.45	75.0	-	-	(75.0)	-	-
17 Sep 2007	16 Aug 2012	$1.23	150.0	-	-	-	150.0	-
08 Oct 2007	08 Oct 2012	$1.22	75.0	-	-	-	75.0	-
05 Nov 2007	05 Nov 2012	$1.26	150.0	-	-	-	150.0	-
12 Nov 2007	12 Nov 2012	$1.26	200.0	-	-	-	200.0	-
24 Nov 2007	24 Nov 2012	$1.28	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	-
			3,568.5	500.0	(1,066.0)	(75.0)	2,927.5	1,232.5
Weighted average exercise price			$1.15	$1.45	$1.06	$1.45	$1.22	$1.09

Share based payments are recognised based on the fair value of partly paid shares offered to management and 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 shares issued during the year ended 30 June 2009 was 25 cents to 33 cents per share.

The share based payment expense was previously not considered material, and was therefore not recognised in prior years. The current year expense includes a 'true-up' for those share based that have vested.

The model inputs for partly paid shares issued during the year ended 30 June 2009, 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: $1.24 - $1.28

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

(e) expected gross dividend per share: 5.6% - 5.8%

(f) risk free interest rate on the issue date: 4.6% - 7.2%

The expected price volatility is based on the historic volatility.

32. Commitments and contingent liabilities

(a) Capital expenditure commitments

As at 30 June 2009 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	
	2009 $'000	2008 $'000	2009 $'000	2008 $'000
Within one year	**189**	189	189	**189**
Later than one year and not later than five years	**172**	361	172	**361**
Later than five years	**-**	-	-	**-**
	361	550	361	**550**

During the year ended 30 June 2009 $202,000 was recognised as an expense in the statement of financial performance in respect of operating leases (2008: $153,000).

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$36.4 million.

(d) Contingent liabilities

As at 30 June 2009 the Company had no contingent liabilities (2008:$Nil).

33. Earnings per share

	Group 2009 Cents	Group 2008 Cents
(a) Basic earnings per share	**13.7**	36.7
(b) Diluted earnings per share	**13.7**	24.1
(c) Reconciliations of earnings used in calculating earnings per share		
Profit for the year	**53,206**	97,243
Profit attributed to minority interest	**-**	-
Profit attributable to the ordinary equity holders of the Company	**53,206**	97,243

	Group 2009 Number 000s	Group 2008 Number 000s
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used in calculating basic earnings per share	**387,903**	265,321
Adjustments for calculation of diluted earnings per share:		
Options	**-**	138,684
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	**387,903**	404,005

34. Events subsequent to balance date

Acquisition of permit interest in Hoki

On 9 July 2009 the Group announced that it had agreed to acquire a 10% stake in Petroleum Exploration Permit 38401. PEP 38401 contains the Hoki oil prospect, which is scheduled to be drilled later in 2009. The Group's financial commitment including the drilling of the exploration well will be approximately $10 million.

Kupe project facility

Subsequent to balance date NZOG and Westpac Banking Corporation have agreed subject to documentation that the facility is amended so that a $75 million facility limit is available for funding the remaining Kupe project costs and for general working capital purposes.

Declared dividend

On 25 August 2009 the Board resolved to pay a fully imputed 5 cents dividend per ordinary share. The determination of entitlements for the dividend will be taken from the close of the share register on 18 September 2009. The dividend will be paid on 2 October 2009.

Directors’ Declaration

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

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

(2) The financial statements for the year to 30 June 2009 and notes to those financial statements give a true and fair view of the financial position and performance of the Company; and

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

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

R A Radford
Director
11 September 2009

P G Foley
Director
11 September 2009

Auditors Report

TO THE SHAREHOLDERS OF NEW ZEALAND OIL & GAS LIMITED

We have audited the financial statements on pages 5 to 38. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 10 to 16.

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 2009 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 5 to 38:
  - 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 2009 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2009 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

Corporate Governance Statement

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

BOARD OF DIRECTORS

The Board is responsible for the overall corporate governance of the Company, including strategic direction, determination of policy, and the approval of significant contracts, capital and operating costs, financial arrangements and investments. In addition to statutory and constitutional requirements, the Board has a formal charter that sets out its functions and those of executive management as well as a number of Board approved policies and protocols. These are available at www.nzog.com/corporategovernance.

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

Director	Appointed	Position	Expertise
Mr R A Radford ACA	June 1981	Chairman	Resource company management
Prof R F Meyer ONZM, BE, PhD, DistFIPENZ	February 2000	Deputy Chairman (Independent)	Engineering and energy
Mr P G Foley BCA, LLB	July 2000	(Independent)	Legal and finance
Mr A T N Knight BMS CA(NZ)	January 2008	(Independent)	Energy operations and finance
Mr S J Rawson BSc, MSc	July 2000	(Independent)	Energy and trading
Mr D J Salisbury BCA, LLB	April 2007	CEO and Managing Director	Worldwide oil & gas exploration
Mr D R Scoffham MA, MSc	June 2003	(Independent)	Worldwide oil & gas exploration

INDEPENDENT DIRECTORS

A majority of the Board are independent Directors. The Board has determined in terms of the NZSX and ASX Listing Rules that as at 30 June 2009 Prof. R F Meyer, Mr P G Foley, Mr A T N Knight, Mr S J Rawson and Mr D R Scoffham are independent Directors. Mr R A Radford and Mr D J Salisbury are not independent Directors because of their respective past and current executive roles. NZX and ASX guidelines recommend that the Chairman should be an independent Director, however, Directors consider that the current composition of the Board remains appropriate. Although Mr Foley is a principal of a material professional advisor to the Company, the Board has determined that this relationship is immaterial for the purpose of determining independence from the perspective of both the Company and the relevant Director.

BOARD PROCEEDINGS

The Board meets on a formal, scheduled basis, generally monthly, and holds other meetings as required. The Chairman and the Managing Director establish the agenda for each Board meeting. As a regular item for each Board meeting, the Managing Director prepares an Operations Report that includes a Health, Safety and Environment report, a summary of the Company's exploration, development and production operations, a summary of new venture projects and opportunities, together with key financial and other reports. Key strategic issues and opportunities are also presented to the Board by management as part of each meeting.

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

- Directors are entitled to seek independent professional advice at the Company's expense; and
- Directors with a conflict of interest in relation to a particular item of business must declare their interest and not vote on that business and absent themselves from Board meetings if required by the Board before commencement of discussion on the topic.

The Board is balanced in its composition with each current Director bringing a range of complementary skills and experience to the Company.

BOARD COMMITTEES

The Board has three formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, the Executive Appointments and Remuneration Committee, and the Corporate Governance and Public Affairs Committee. Each committee has a written charter or terms of reference setting out its respective roles and responsibilities, which is available from the Company's website at www.nzog.com/corporategovernance. It is the Board's policy that all Committees should be chaired by a non-executive Director and should comprise a majority of non-executive Directors.

The Audit Committee is required to contain one member with an accounting or financial background. The Board has determined that Mr Foley and Mr Knight have the requisite financial background for this requirement. The members of the Audit Committee are Mr Foley (Chairman), Mr Knight, Prof. Meyer and Mr Scoffham. The Committee is responsible to the Board for overseeing the financial and internal controls, financial reporting, and audit practices of the Company. The Committee also oversees and authorises any trading in securities by Directors or employees. There are restrictions on trading outlined in the Security Trading Policies, including a prohibition on any transaction which has the effect of limiting the risk of participating in unvested entitlements. Meetings of the Audit Committee are held at least twice a year, and at the discretion of the Committee the external auditors, the Managing Director, the Chief Financial Officer and other senior executives attend these meetings. As outlined in the Board Charter, there is an annual process to consider engagement of auditors, having regard to the auditors' independence and policies for rotation of partners.

The members of the Executive Appointment and Remuneration Committee are Prof. Meyer (Chairman), Mr Foley and Mr Knight. Meetings are held at least twice a year. The Committee is responsible to the Board for recommending the remuneration policies and packages for the Chief Executive and appointees to the management team, and under the employee share ownership plan and amendments to plan rules. The Committee operates independently of management and executive Directors.

The Corporate Governance and Public Affairs Committee is responsible for monitoring the Company's compliance with continuous disclosure obligations and overseeing the public profile of the Company. The members of the Corporate Governance and Public Affairs Committee are Mr Foley (Chairman), Prof. Meyer and Mr Radford.

The Board does not have a separate nominations committee. As outlined in its Charter, the Board as a whole undertakes the responsibility for the recruitment and appointment of Directors. The Board's policy is to:

a) Comply with the NZSX Rules for inviting Director nominations from security holders; and

b) Undertake an annual review of Board membership to ensure its composition and the skills and experiences of its members meet the Company's requirements.

MEETING ATTENDANCE

Director	Board Meeting	Audit Committee	Executive Appointments & Remuneration Committee
Mr R A Radford	23		
Prof R F Meyer	26	3	4
Mr P G Foley	26	3	4
Mr A T N Knight	26	3	4
Mr S J Rawson	21		
Mr D J Salisbury	26		
Mr D R Scoffham	23	2	

The Corporate Governance and Public Affairs Committee did not have any formal meetings but dealt with issues by email and phone on an as-needs basis.

BOARD PERFORMANCE AND EVALUATION

The Board has a policy of conducting an annual review of its performance and that of its committees. This is performed by way of a questionnaire submitted to Directors. Responses are collated and reviewed by the Board to guide performance improvement. An evaluation in accordance with the above process was performed during the past year. A more detailed process for evaluating the performance of individual Directors is currently being developed.

RESPONSIBILITIES OF THE BOARD

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

- approving corporate strategy and performance objectives;
- establishing policies appropriate for the Company;
- oversight of the Company, including its control and accountability systems;
- approving major investments and monitoring the return of those investments;
- evaluating the performance of the Chief Executive;
- setting broad remuneration policy including approving allocations under the Company's employee share ownership plan;
- reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- undertaking periodic reviews of the performance of the Board and its Committees;
- reviewing and ratifying systems of risk management, internal compliance and control, codes of conduct, and legal compliance;
- approving and monitoring financial and other reporting;
- ensuring that the Company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the Company's prospects; and
- overall corporate governance of the consolidated entity.

COMPANY POLICIES

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

A series of policies and procedures are in place, including:

- Delegated Authorities Manual
- Code of Conduct
- Remuneration Policies
- Interests Register
- Securities Trading policies and protocols for employees and Directors
- Communications and Market Disclosure Policy
- Oil Hedging policy
- Funds Investment policy and guidelines
- Foreign Exchange policy
- Health, Safety and Environment policy
- Whistleblower policy
- Directors' Conflict of Interest protocol.

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

Delegated Authorities Manual

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

Code of Conduct

NZOG's Code of Conduct sets out the ethical standards expected of the Company's Directors, management, employees and dedicated contractors. NZOG strives to create a strong culture of honesty, integrity, loyalty, fairness, forthrightness and ethical behaviour. The Code addresses matters of:

- conflicts of interest
- corporate opportunities
- intellectual property
- confidentiality, receipt and use of corporate information
- competition and fair dealing
- protection of and proper use of company assets
- compliance with laws and regulations
- a general obligation to act honestly and in the best interests of the company as required by law
- encouraging the reporting of unlawful or unethical behaviour.

The Code of Conduct is available on the company's website at www.nzog.com/corporategovernance.

Remuneration Policies

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

At the 2008 NZOG AGM, shareholders approved a resolution that Directors' fees be set at a maximum of $600,000 per annum, being the combined total for all non-executive Directors. Directors also participate in the NZOG Employee Share Ownership Plan as detailed in this Annual Report, but otherwise do not receive any performance based remuneration.

The Executive Appointments and Remuneration Committee is responsible for receiving and making recommendations on remuneration policies for the Managing Director and senior executives based on assessment of relevant market conditions and linking remuneration to the Company's financial and operational performance. Executive remuneration may comprise salary, short term performance bonuses and share participation in accordance with the NZOG Employee Share Ownership Plan (as approved by shareholders.) A performance evaluation of senior executives is performed annually at the end of each financial year.

Interests Register

The Company maintains an Interests Register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving Directors.

Whistleblower Policy

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

Security Trading Policies

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

Health and Safety Policy

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

NZOG H&S policy is to:

- Provide a safe and healthy work environment
- Prevent exposure to unnecessary risks and to operate in a way that minimises health and safety hazards
- Actively monitor and continuously improve health and safety performance; and
- Encourage safe and healthy lifestyles.

Communications and Market Disclosure Policy

The Company complies with the continuous disclosure requirements and all other listing requirements of the NZX and ASX relating to shareholder reporting which enables the Company to ensure high quality and uniform disclosure of market sensitive information. The Communications and Market Disclosure Policy is available on the website at www.nzog.com/corporategovernance. Shareholders and interested parties can subscribe via the website to receive the Company's market announcements by email. The Company issues shareholder, annual, interim, and quarterly reports, which security holders can elect to receive in paper or electronic format. These documents are also posted on the Company's website.

RECOGNISING AND MANAGING RISK

The Company understands the need for an effective system of risk oversight, management and internal control. The Company has implemented a risk management framework designed to ensure that its principal risks are identified and that controls are adequate, in place and functioning effectively.

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

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

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

- Regular reporting to the Board and the Audit Committee in respect of operations, financial position and compliance requirements;
- Reports by the Chairman of the Audit Committee and circulation to the Board of the minutes of each Audit Committee meeting;
- Periodic review of the adequacy of the overall risk management framework; and
- Periodic review of internal controls.

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

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

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

CORPORATE GOVERNANCE BEST PRACTICE CODES

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

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

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

The Chairman is not an independent Director by virtue of him having previously been employed in an executive capacity by the Company and there not having been a period of at least three years between ceasing such employment and serving on the Board.

The NZOG Board conducts an annual review of its performance but does not have a formal training programme in respect of Directors or a formal method of Director performance assessment. A detailed process for evaluating the performance of individual Directors is currently being developed.

Shareholder Information

STOCK EXCHANGE LISTING

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

SECURITIES ON ISSUE

At 31 July 2009 New Zealand Oil & Gas Ltd had the following securities:

Listed Ordinary Shares	384,930,859
Unlisted Partly Paid Shares	3,777,500

TOP 20 SHAREHOLDERS

Top 20 registered holders of Ordinary Shares as at 31 July 2009

Name of Registered Shareholder	Shareholding	% of Issued Capital
National Nominees New Zealand Limited	22,452,942	5.83
Accident Compensation Corporation	17,724,261	4.60
Resources Trust Limited	10,130,170	2.63
HSBC Nominees (New Zealand) Limited	9,125,372	2.37
New Zealand Superannuation Fund	8,015,945	2.08
Citibank Nominees (New Zealand) Limited	6,333,067	1.65
Leveraged Equities Finance Limited	5,960,202	1.55
Sik-On Chow	5,662,672	1.47
Tea Custodians Limited	5,381,633	1.40
Exploration Nominees Limited	4,443,867	1.15
NZ Guardian Trust Investment Nominees Limited	4,416,917	1.15
Hubbard Churcher Trust Management Limited	4,355,063	1.13
Asteron Life Limited	4,286,665	1.11
AMP Investments Strategic Equity Growth Fund	4,244,268	1.10
Kevin Glen Douglas and Michelle McKenney Douglas	3,707,000	0.96
Riuo Hauraki Limited	3,518,500	0.91
ANZ Nominees Limited	3,230,885	0.84
Custodial Services Limited	3,018,554	0.78
FNZ Custodians Limited	2,937,418	0.76
National Nominees (Australia) Limited	2,850,474	0.74

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

SUBSTANTIAL SHAREHOLDERS

As at 31 July 2009 there were no current Substantial Shareholder notices.

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

DISTRIBUTION OF LISTED HOLDINGS

Ordinary Shares as at 31 July 2009

Range	Total holders	Units	% of Issued Capital
1 - 99	60	2,905	0.00
100 - 199	47	5,936	0.00
200 - 499	253	82,926	0.02
500 - 999	1,932	1,220,873	0.32
1,000 - 1,999	2,801	3,654,912	0.95
2,000 - 4,999	3,609	11,215,810	2.91
5,000 - 9,999	2,495	16,430,230	4.27
10,000 - 49,999	3,374	66,122,267	17.18
50,000 - 99,999	463	29,948,867	7.78
100,000 - 499,999	370	67,214,921	17.46
500,000 - 999,999	25	18,335,321	4.76
1,000,000 plus	28	170,695,891	44.34
Rounding			0.01
Total	**15,457**	**384,930,859**	**100.00**

VOTING RIGHTS

Article 22 of the Company's Constitution provides that on a show of hands at a general meeting, every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each ordinary share held. The Board may determine ahead of a shareholder meeting that postal voting will be allowed.

TRADING STATISTICS

For the 12 months ended 30 June 2009	High	Low
NZX (Trading Code NZO)	NZ$1.86 on 01/7/08	NZ$1.08 on 17/10/08
ASX (Trading Code NZO)	A$1.47 on 01/7/08	A$0.92 on 3/3/09
Combined Volume of Shares Traded: 217,140,912		

DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors for services in all capacities during the year ended 30 June 2009 was:

Mr R A Radford	$152,000
Prof R F Meyer	$80,000
Mr P G Foley	$71,250
Mr A T N Knight	$56,250
Mr S J Rawson	$56,250
Mr D J Salisbury*	$545,000
Mr D R Scoffham	$56,250

*Remuneration received as Chief Executive.

DIRECTORS' SECURITIES INTERESTS

The interests of Directors in securities of the Company at 30 June 2009 were:

Mr R A Radford in respect of 6,328,768 shares (indirect and direct interests)
Prof R F Meyer in respect of 150,000 shares (indirect interest)
Mr P G Foley in respect of 223,000 shares (indirect and direct interests)
Mr A T N Knight in respect of 162,000 shares (direct interest)
Mr S J Rawson in respect of 157,000 shares (indirect and direct interests)
Mr D J Salisbury in respect of 750,000 shares (indirect interest)
Mr D R Scoffham in respect of 275,000 shares (indirect and direct interests)

During the year, Mr Radford acquired a total of 900,000 shares (both direct and indirect interests), sold a total of 1,188,196 shares (both direct and indirect interests) and ceased to have an indirect interest in 2,404,090 shares held by a superannuation fund. Mr Salisbury acquired an interest in 250,000 partly paid shares under the terms of the Employee Share Ownership Plan (ESOP). Mr Knight acquired an interest in 150,000 shares under the terms of the ESOP.

DIRECTORS' INTERESTS IN TRANSACTIONS

As at 30 June 2009, the following Directors had interests recorded in the Interests Register of the Company. Notices given or adjusted during the financial year ended 30 June 2009 are marked with an asterisk (*). Each such Director will be regarded as interested in all transactions between the Company and the disclosed entity.

Mr R A Radford	
Pan Pacific Petroleum NL (and subsidiaries)	Director
Pike River Coal Limited	Director
Mr R F Meyer	
Pike River Coal Limited	Director
Mr P G Foley	
Minter Ellison Rudd Watts	Partner
Mr A T N Knight	
Vector Ltd*	Former Senior Executive
Powerco Ltd*	Director
Mr S J Rawson	
Mighty River Power Limited	Senior Executive

EMPLOYEES REMUNERATION

During the year ended 30 June 2009 nine employees (excluding the Chief Executive) received individual remuneration over $100,000.

$100,001 - $110,000	1
$110,001 - $120,000	1
$120,001 - $130,000	1
$160,001 - $170,000	1
$190,001 - $200,000	1
$210,001 - $220,000	1
$250,001 - $260,000	1
$260,001 - $270,000	1
$270,001 - $280,000	1

OFFICERS' SECURITIES INTERESTS

The interests of Company Officers (excluding the Chief Executive) in securities of the Company at 30 June 2009 were:

Chris Roberts in respect of 150,000 unlisted partly paid shares

Markus Schuh in respect of 200,000 unlisted partly paid shares

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

NZOG GROUP

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

CURRENCY

All amounts are New Zealand dollars unless otherwise specified. The NZD/USD exchange rate was 0.645 as at 30 June 2009.

Corporate Directory

DIRECTORS

R A Radford
Chairman CA, FAICD

R F Meyer
Deputy Chairman ONZM, BE, PhD, DistFIPENZ

P G Foley
BCA, LLB

A T N Knight
BMs, CA(NZ)

S J Rawson
BSc, MSc

D J Salisbury
Managing Director BCA, LLB

D R Scoffham
MA, MSc

MANAGEMENT

David Salisbury
CEO & Managing Director BCA, LLB

Mac Beggs
Acting Exploration Manager BSc, MSc, PhD

Craig Jones
Chief Financial Officer BBus, FCPA, FCIS, ASIA

Chris Roberts
Public Affairs Manager BA, Dip.IR

Markus Schuh
Reservoir Engineering Manager MSc

Hugh Steed
New Ventures Manager BSc (Hons), PhD

REGISTERED AND HEAD OFFICE

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AUDITORS

KPMG
KPMG Centre
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Wellington
New Zealand

SHAREHOLDER INFORMATION

For information on number of shares held, holding statements and changes of address contact the registrars:

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