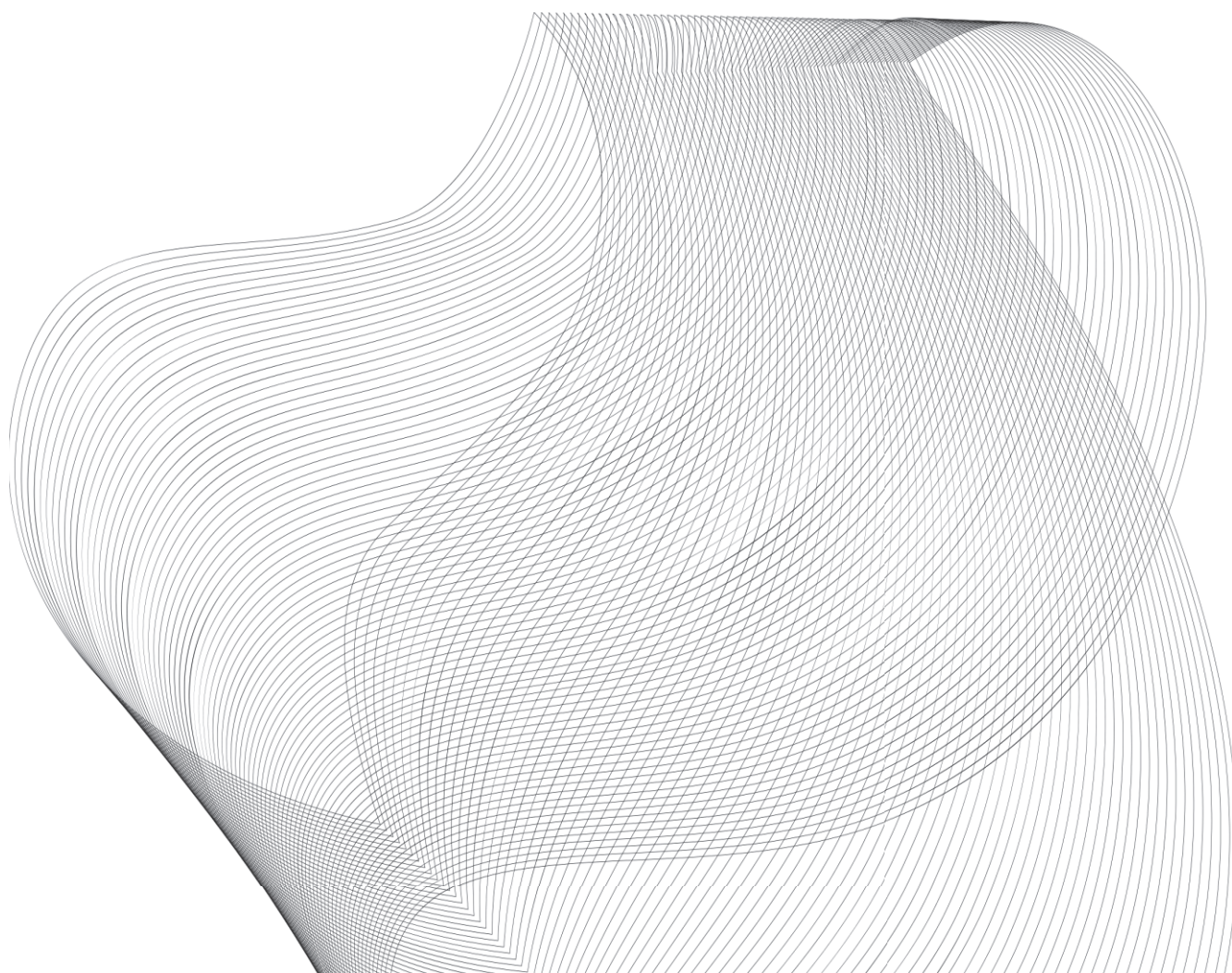


# **CONSOLIDATED FINANCIAL STATEMENTS**

**For the year ended 30 June 2017**



**Consolidated Statement of Cash Flows**  
**For the year ended 30 June 2017**

\$000	Notes	2017	2016
<b>Cash flows from operating activities</b>			
Receipts from customers		73,446	136,840
Production and marketing expenditure		(30,317)	(46,082)
Supplier and employee payments (inclusive of GST)		(15,831)	(21,304)
Interest received		2,650	649
Income taxes paid		(11,242)	(11,827)
Royalties paid		(1,979)	(6,349)
Other		400	4,268
<b>Net cash inflow from operating activities</b>		<b>17,127</b>	<b>56,195</b>
<b>Cash flows from investing activities</b>			
Exploration and evaluation expenditure	16	(17,302)	(23,466)
Oil and gas asset expenditure		(5,235)	(11,508)
Purchase of shares in subsidiary		(1,251)	-
Proceeds from sale of oil and gas interests or subsidiaries		158,891	-
Purchase of property, plant and equipment		(12)	(170)
Return of security deposit		870	-
<b>Net cash inflow/(outflow) from investing activities</b>		<b>135,961</b>	<b>(35,144)</b>
<b>Cash flows from financing activities</b>			
Issue of shares		(10)	78
Buyback of NZOG shares		(9,447)	(1,046)
Capital return		(99,999)	-
Dividends paid		(13,512)	-
Other		-	(77)
<b>Net cash outflow from financing activities</b>		<b>(122,968)</b>	<b>(1,045)</b>
<b>Net increase in cash and cash equivalents</b>		<b>30,120</b>	<b>20,006</b>
Cash and cash equivalents at the beginning of period		96,811	83,659
Exchange rate effects on cash and cash equivalents		(1,828)	(6,854)
<b>Cash and cash equivalents at end of the year</b>		<b>125,103</b>	<b>96,811</b>

**Reconciliation of profit/(loss) for the year to net cash inflow from operating activities**

\$000	2017	2016
<b>Profit/(Loss) for the year</b>	<b>52,558</b>	(51,794)
Depreciation and amortisation	7,804	49,450
Deferred tax	1,633	(8,035)
Exploration expenditure included in investing activities	12,273	21,504
Asset impairment	15,261	26,605
Net foreign exchange differences	(1,371)	2,469
Unwind of discount on provision	-	1,689
Net surplus/(loss) from discontinued operations after tax	(85,301)	1,437
Cash from discontinued operations relating to operating activities	20,482	-
Stock movement	(680)	2,802
Other	(301)	468
<b>Change in operating assets and liabilities</b>		
Movement in trade debtors	6,633	16,422
Movement in trade creditors	(11,615)	(8,849)
Movement in inventory	-	2,477
Movement in tax payable	(249)	(450)
Movement in discontinued operations assets and liabilities	-	-
<b>Net cash inflow from operating activities</b>	<b>17,127</b>	<b>56,195</b>

The notes to the financial statements are an integral part of these financial statements

**Consolidated Statement of Comprehensive Income  
For the year ended 30 June 2017**

<b>\$000</b>	<b>Notes</b>	<b>2017</b>	<b>2016*</b>
Revenue	5	37,058	49,546
Operating costs	6	(15,882)	(18,997)
Exploration and evaluation expenditure	16	(12,273)	(21,891)
Other income	5	807	4,261
Other expenses	7	(14,622)	(16,838)
<b>Results from operating activities excluding amortisation, impairment and net finance costs</b>		<b>(4,912)</b>	<b>(3,919)</b>
Amortisation of production assets		(8,271)	(13,873)
Production asset impairment	17	(7,694)	(26,605)
Evaluation and exploration asset impairment	16	(7,567)	-
Net finance income/(costs)	8	1,371	(1,955)
<b>Loss before income tax and royalties</b>		<b>(27,073)</b>	<b>(46,352)</b>
Income tax (expense)/credit	9	(5,095)	6,587
Royalties expense	10	(575)	(717)
Loss for the year from continuing operations		(32,743)	(40,482)
Net surplus/(loss) from discontinued operations after tax	11	85,301	(11,312)
<b>Profit/(Loss) for the year</b>		<b>52,558</b>	<b>(51,794)</b>
<b>Profit/(Loss) for the year attributable to:</b>			
Profit/(Loss) attributable to shareholders		62,695	(29,763)
Loss attributable to non-controlling interest		(10,137)	(22,031)
<b>Profit/(Loss) for the year</b>		<b>52,558</b>	<b>(51,794)</b>
<b>Other comprehensive profit/(loss):</b>			
<b>Items that may be classified to profit or loss</b>			
Foreign currency translation differences	23	(1,244)	(7,967)
<b>Total other comprehensive income/(loss) for the year</b>		<b>51,314</b>	<b>(59,761)</b>
<b>Total comprehensive income/(loss) for the year is attributable to:</b>			
Equity holders of the Group		61,193	(35,942)
Non-controlling interest		(9,879)	(23,819)
<b>Total comprehensive income/(loss) for the year</b>		<b>51,314</b>	<b>(59,761)</b>
<b>Income/(loss) per share</b>			
Basic and diluted (cents per share)	24	20.0	(8.6)

The notes to the financial statements are an integral part of these financial statements

\* comparative numbers have been restated due to discontinued operations. Refer to note 11.

**Consolidated Statement of Financial Position**  
**As at 30 June 2017**

<b>\$000</b>	<b>Notes</b>	<b>2017</b>	<b>2016</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	12	<b>125,103</b>	96,811
Receivables and prepayments	13	<b>6,523</b>	13,156
Inventories		<b>1,450</b>	9,166
Assets held for sale		<b>-</b>	2,088
<b>Total current assets</b>		<b>133,076</b>	121,221
<b>Non-current assets</b>			
Evaluation and exploration assets	16	<b>6,692</b>	14,580
Oil and gas assets	17	<b>31,957</b>	207,937
Property, plant and equipment		<b>185</b>	193
Other intangible assets		<b>650</b>	1,042
Other financial assets	18	<b>16</b>	1,891
<b>Total non-current assets</b>		<b>39,500</b>	225,643
<b>Total assets</b>		<b>172,576</b>	346,864
<b>Liabilities</b>			
<b>Current liabilities</b>			
Payables	19	<b>5,784</b>	17,399
Current tax liabilities		<b>2,926</b>	3,175
Rehabilitation provision	20	<b>-</b>	1,548
<b>Total current liabilities</b>		<b>8,710</b>	22,122
<b>Non-current liabilities</b>			
Borrowings		<b>1,146</b>	1,137
Rehabilitation provision	20	<b>10,304</b>	77,458
Other provisions	21	<b>-</b>	6,350
Deferred tax liability	9	<b>3,360</b>	18,597
<b>Total non-current liabilities</b>		<b>14,810</b>	103,542
<b>Total liabilities</b>		<b>23,520</b>	125,664
<b>Net assets</b>		<b>149,056</b>	221,200
<b>Equity</b>			
Share capital	22	<b>208,630</b>	318,089
Reserves	23	<b>6,198</b>	1,051
Retained earnings		<b>(68,558)</b>	(111,382)
<b>Attributable to shareholders of the Group</b>		<b>146,270</b>	207,758
Non-controlling interest in subsidiaries		<b>2,786</b>	13,442
<b>Total equity</b>		<b>149,056</b>	221,200
Net asset backing per share (cents per share)		<b>89</b>	64
Net tangible asset backing per share (cents per share)		<b>84</b>	59

Authorised on behalf of the New Zealand Oil & Gas Limited Board of Directors on 29 August 2017:

Rodger Finlay  
Chairman



Mark Tume  
Director



The notes to the financial statements are an integral part of these financial statements

**Consolidated Statement of Changes in Equity**  
**For the year ended 30 June 2017**

\$000	Issued capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
<b>Balance as at 1 July 2015</b>	<b>319,060</b>	<b>(1,563)</b>	<b>(71,131)</b>	<b>246,366</b>	<b>35,473</b>	<b>281,839</b>
Loss for the year	-	-	(29,763)	(29,763)	(22,031)	(51,794)
Foreign currency translation differences	-	(7,967)	-	(7,967)	-	(7,967)
Shares issued	68	-	-	68	-	68
Buy back of issued shares	(1,046)	-	-	(1,046)	-	(1,046)
Partly paid shares issued	7	-	-	7	-	7
Share based payment	-	93	-	93	-	93
Transfer of expired share based payments	-	(46)	46	-	-	-
Asset revaluation reserve transferred to retained earnings	-	10,534	(10,534)	-	-	-
<b>Balance as at 30 June 2016</b>	<b>318,089</b>	<b>1,051</b>	<b>(111,382)</b>	<b>207,758</b>	<b>13,442</b>	<b>221,200</b>
Profit/(loss) for the year	-	-	62,695	62,695	(10,137)	52,558
Foreign currency translation differences	-	(1,244)	-	(1,244)	-	(1,244)
Shares issued	1	-	-	1	-	1
Buy back of issued shares	(109,433)	-	-	(109,433)	-	(109,433)
Party paid shares issued	(27)	-	-	(27)	-	(27)
Share based payment	-	32	-	32	-	32
Dividends declared	-	-	(13,512)	(13,512)	-	(13,512)
Change in share of non-controlling interest	-	-	-	-	(1,168)	(1,168)
Derecognition of FCTR on disposal of Tui	-	6,359	(6,359)	-	-	-
NCI adjustment on disposal of Pine Mills	-	-	-	-	649	649
<b>Balance as at 30 June 2017</b>	<b>208,630</b>	<b>6,198</b>	<b>(68,558)</b>	<b>146,270</b>	<b>2,786</b>	<b>149,056</b>

The notes to the financial statements are an integral part of these financial statements.



## **1. Basis of accounting**

### **Reporting entity**

New Zealand Oil & Gas Limited (the Group) is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The Group is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The financial statements presented are for New Zealand Oil & Gas Limited, its subsidiaries and interests in associates and jointly controlled operations (together referred to as the "Group").

### **Basis of preparation**

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ('NZ GAAP') and the Financial Reporting Act 2013. They comply with the NZ equivalents to International Financial Reporting Standards ('NZ IFRS') as appropriate for profit-oriented entities, and with International Financial Reporting Standards ('IFRS').

The presentation and reporting currency used in the preparation of the financial statements is New Zealand dollars (NZD or \$) rounded to the nearest thousand unless otherwise stated. The financial statements are prepared on a goods and services tax (GST) exclusive basis except billed receivables and payables which include GST.

These financial statements are prepared on the basis of historical cost except where otherwise stated in specific accounting policies contained in the accompanying notes.

### **Basis of consolidation**

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. Intra-group balances, transactions, unrealised income or expenses arising from intra-group transactions and dividends are eliminated in preparing the Group financial statements. A list of subsidiaries and associates is shown in notes 14 and 15.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in the statement of comprehensive income and held in equity reserves as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equities classified as fair value through other comprehensive income, are included in the statement of comprehensive income and held in the fair value reserves in equity.

## **2. Critical accounting 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.

The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to:

- \* recoverability of evaluation and exploration assets and oil and gas assets. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 16, 17 and 25(a)(ii)).
- \* provision for rehabilitation obligations includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 20).
- \* recoverability of deferred tax asset. Assessment of the ability of entities in the Group to generate future taxable income (refer to note 9).

### **3. Adoption status of relevant new financial reporting standards and interpretations**

Certain new standards, amendments and interpretations to existing standards have been published that will be mandatory. The Group has chosen not to early adopt the following standards.

- \* IFRS 15 Revenue from Contracts with Customers (effective from 1 July 2018)
- \* IFRS 9 Financial Instruments: Classification and Measurement (effective from 1 July 2018)
- \* IFRS 16 Leases (effective from 1 July 2019)
- \* Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (effective date deferred)

The impact of these accounting standards is currently being assessed.

### **4. Segment information**

All operating segments' operating results are reviewed regularly by the Group's chief executive officer (CEO), the entity's chief decision maker, and have discrete financial information available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.

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

Tui area oil field: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand. This asset was sold during the year (refer to note 11).

Kupe oil and gas field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand. This asset was sold during the year (refer to note 11).

Oil & gas exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand and in Indonesia.

Cue Energy Resources Limited (Cue): the Group acquired a controlling interest in Cue during the 2015 financial year. Management have treated this as a separate operating segment.

4. Segment information (continued)

2017 \$000	Tui oil	Kupe oil & gas	Oil & gas exploration	Other & unallocated	Cue Energy Resources Ltd	Total
Sales to external customers - NZ	-	-	-	-	22,861	22,861
Sales to external customers - other countries	-	-	-	-	14,196	14,196
<b>Total sales revenue</b>	-	-	-	-	37,057	37,057
Other income	-	-	-	736	-	736
<b>Total revenue and other income</b>	-	-	-	736	37,057	37,793
Impairment of assets	-	-	(7,567)	-	(7,694)	(15,261)
<b>Segment result</b>	-	-	(11,117)	(8,454)	(8,873)	(28,444)
Other net finance costs						1,371
<b>Profit before income tax and royalties</b>						(27,073)
Income tax and royalties expense						(5,669)
<b>Profit for the year from continuing operations</b>						(32,742)
Profit/(Loss) after tax from discontinuing operations	(14,742)	102,390	-	-	(2,347)	85,301
<b>Profit for the year</b>						52,559
<b>Segment assets</b>	-	-	6,692	-	31,957	38,649
Assets held for sale	-	-	-	-	-	-
Unallocated assets						133,927
<b>Total assets</b>						172,576
Included in segment results:						
Depreciation and amortisation expense	-	-	-	433	8,305	8,738
Depreciation and amortisation expense from discontinuing operations	8,105	6,961	-	-	-	15,066
2016 \$000	Tui oil	Kupe oil & gas	Oil & gas exploration	Other & unallocated	Cue Energy Resources Ltd	Total
Sales to external customers - NZ	-	-	-	-	29,854	29,854
Sales to external customers - other countries	-	-	-	-	19,693	19,693
<b>Total sales revenue</b>	-	-	-	-	49,547	49,547
Other income	-	-	-	181	4,080	4,261
<b>Total revenue and other income</b>	-	-	-	181	53,627	53,808
Impairment of oil and gas assets	-	-	-	-	(26,605)	(26,605)
<b>Segment result</b>	-	-	(4,044)	(9,350)	(31,003)	(44,397)
Other net finance costs						(1,955)
<b>Loss before income tax and royalties</b>						(46,352)
Income tax and royalties expense						5,869
<b>Loss for the year from continuing operations</b>						(40,483)
Profit/(Loss) after tax from discontinuing operations	(15,649)	7,656	-	-	(3,318)	(11,311)
<b>Loss for the year</b>						(51,794)
<b>Segment assets</b>	27,274	133,236	14,580	-	47,427	222,517
Assets held for sale	-	-	-	-	2,088	2,088
Unallocated assets						122,259
<b>Total assets</b>						346,864
Included in segment results:						
Depreciation and amortisation expense	-	-	-	469	13,910	14,379
Depreciation and amortisation expense from discontinuing operations	13,895	21,176	-	-	-	35,071



## 5. Revenue and other income

Sales comprise revenue earned from the sale of petroleum products, when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer. Revenue is recognised at the fair value of the consideration received net of the amount of GST.

\$000	2017	2016*
<b>Revenue</b>		
Petroleum sales	37,058	49,546
<b>Total revenue</b>	<b>37,058</b>	<b>49,546</b>
<b>Other income</b>		
Insurance proceeds	541	4,080
Other income	266	181
<b>Total other income</b>	<b>807</b>	<b>4,261</b>
<b>Total income</b>	<b>37,865</b>	<b>53,807</b>

## 6. Operating Costs

\$000	2017	2016*
Production and sales marketing costs	(14,571)	(16,407)
Carbon emission expenditure	(139)	(138)
Insurance expenditure	(45)	(139)
Movement in inventory	(1,127)	(2,313)
<b>Total operating costs</b>	<b>(15,882)</b>	<b>(18,997)</b>

## 7. Other expenses

\$000	2017	2016*
<b>Classification of other expenses by nature</b>		
Audit fees paid to the Group auditor - KPMG	120	127
Audit fees paid to other auditors - BDO	193	106
Directors' fees	609	1,228
Legal fees	1,032	517
Consultants' fees	981	561
Employee expenses (i)	8,034	9,319
Depreciation	69	100
Amortisation of intangible assets	398	407
Share based payment expense	32	93
IT and software expenses	800	962
Pre-permit expenditure	445	548
Registry and stock exchange fees	241	320
Other	1,668	2,550
<b>Total other expenses</b>	<b>14,622</b>	<b>16,838</b>

(i) Employee expenses are net of \$0.5 million (2016: \$3.1 million) recharged to exploration and evaluation expense and recharged to operated joint ventures. Included in these expenses are \$1.6 million relating to termination benefits of key management personnel.

A number of one-off expenses were incurred during the year relating to due diligence on potential acquisitions, legal and tax consultancy relating to the capital return and office move costs.

\* comparative numbers have been restated due to discontinued operations. Refer to note 11.

7. Other expenses (continued)

\$000	2017	2016*
<b>Fees paid to the Group auditor</b>		
Audit and review of financial statements	120	127
Tax compliance services	49	157
Tax advisory services	227	90
<b>Total fees paid to Group auditor</b>	<b>396</b>	<b>374</b>
<b>Fees paid to the other auditors (for the year) - BDO</b>		
Audit and review of subsidiary financial statements	193	106
Tax compliance services	53	22
Tax advisory services	3	122
<b>Total fees paid to other auditors</b>	<b>249</b>	<b>250</b>

8. Net finance income and costs

\$000	2017	2016*
Interest and finance charges	(12)	(107)
Unwinding of discount on provisions	(2)	(385)
Exchange losses on foreign currency balances	(949)	(1,942)
<b>Total finance costs</b>	<b>(963)</b>	<b>(2,434)</b>
Interest income	2,334	454
Reversal of impairment of loan to related entities	-	25
<b>Total finance income</b>	<b>2,334</b>	<b>479</b>
<b>Net finance (costs)/income</b>	<b>1,371</b>	<b>(1,955)</b>

\* comparative numbers have been restated due to discontinued operations. Refer to note 11.

## 9. Taxation

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Current and deferred tax are recognised in profit or loss except when the tax relates to items recognised in other comprehensive income, in which case the tax is also recognised in other comprehensive income.

\$000	2017	2016*
(a) Income tax expense		
Current tax	6,728	(4,683)
Deferred tax	(1,633)	(1,903)
<b>Total income tax expense/(credit)</b>	<b>5,095</b>	<b>(6,587)</b>
(b) Income tax expense calculation		
Loss before income tax expense and royalties from continuing operations	(27,073)	(46,352)
Less: royalties expense	(574)	(717)
Loss before income tax expense	(27,647)	(47,070)
Tax at the New Zealand tax rate of 28%	(7,741)	(13,180)
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	3,722	2,510
Non-deductible write off	2,849	256
Unrealised timing differences	4,164	10,506
Other (income)/expenses	(299)	(591)
	2,695	(499)
Under provision in prior years	2,400	(6,088)
<b>Income tax expense/(credit)</b>	<b>5,095</b>	<b>(6,587)</b>
<b>(c) Imputation credits available for subsequent reporting periods</b>	<b>8,427</b>	<b>15,025</b>

### (d) Deferred tax

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and future tax benefits are recognised where realisation of the asset is probable. 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.

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.

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences. As at 30 June 2017 Cue have accumulated losses in New Zealand of \$29.1 million (30 June 2016: \$26.8 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to Cue satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

\* comparative numbers have been restated due to discontinued operations. Refer to note 11.

## 9. Taxation (continued)

\$000	2017	2016*
<b>The balance comprises temporary differences attributable to:</b>		
Non-deductible provisions	<u>145</u>	<u>18,542</u>
	<u>145</u>	<u>18,542</u>
Other		
Exploration assets	-	(186)
Oil & gas assets	(3,589)	(36,953)
Other items	-	-
Sub-total other	<u>(3,589)</u>	<u>(37,139)</u>
<b>Net deferred tax liabilities</b>	<u>(3,444)</u>	<u>(18,597)</u>
<b>Movements:</b>		
Net deferred tax liability at 1 July	(18,597)	(26,706)
Derecognised deferred tax balances from discontinued operations	19,581	-
Recognised in profit or loss	(4,291)	7,999
Recognised in other comprehensive income	(53)	110
<b>Closing balance at end of year</b>	<u>(3,360)</u>	<u>(18,597)</u>

## 10. Royalties expense

Royalty expenses incurred by the Group relate to petroleum royalty payments to the New Zealand Government in respect of the Tui, Kupe and Maari oil and gas fields, and are recognised on an accrual basis.

## 11. Discontinued Operations

A discontinued operation is a component of an entity, being a cash-generating unit that either has been disposed of, or is classified as held for sale and:

- represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations or;
- is a subsidiary acquired exclusively with the view to resale.

On 14 December, the Group approved the sale of its 15 per cent interest in the Kupe gas and oil field off Taranaki basin. The sale was subsequently finalised on 1 January 2017 with the risk and rewards of the permit passing on that date. Genesis Energy paid \$168 million for the Group's shares in three entities that hold its Kupe interest and included the Group's entitlement to overriding royalty interests.

On 14 February 2017, the Group accepted an offer from Tamarind for its 27.5 per cent interest in the Tui oil fields off Taranaki basin. The sale became effective from 1 January 2017. Tamarind paid the Group US dollars \$0.75 million in exchange for all shares in its Tui holding Company, Stewart Petroleum. Stewart Petroleum's assets and liabilities include a 27.5 per cent interest in the Tui field, and inventory of US dollars \$4.7 million of oil. A working capital adjustment of US dollars \$6.0 million was also transferred to Tamarind. Tamarind will also assume all field retirement obligations.

In addition, Cue Energy announced on 10 November 2016 the sale of their 80 per cent interest in Pine Mills to Mosman Oil and Gas for US dollars \$0.975 million.

The impact on the Group following the sale of these components is shown below. The results for the period have been presented as discontinued in the Consolidated Statement of Comprehensive Income for current and comparative period.

\* comparative numbers have been restated due to discontinued operations. Refer to note 11.

# 11. Discontinued Operations (continued)

2017 \$000	Tui oil	Kupe oil & gas	Pine Mills	Total
<b>Results of operating activities</b>				
Revenue	10,179	22,393	623	33,195
Operating costs	(8,345)	(4,841)	(889)	(14,075)
Exploration and evaluation costs expensed	(3)	2	-	(1)
Other income	-	1,530	-	1,530
Other expenses	-	12	-	12
<b>Results from operating activities excluding amortisation, impairment and net finance costs</b>	<b>1,831</b>	<b>19,096</b>	<b>(266)</b>	<b>20,661</b>
Amortisation of production assets	(8,105)	(6,961)	(64)	(15,130)
Net finance costs	(576)	(239)	30	(785)
<b>(Loss)/profit before income tax and royalties</b>	<b>(6,850)</b>	<b>11,896</b>	<b>(300)</b>	<b>4,746</b>
Income tax expense	(7,577)	(2,945)	-	(10,522)
Royalties expense	(548)	(1,526)	-	(2,074)
<b>(Loss)/profit after tax from discontinuing operations</b>	<b>(14,975)</b>	<b>7,425</b>	<b>(300)</b>	<b>(7,850)</b>
<b>Reconciliation of gain/(loss) on sale</b>				
Gross sale proceeds	1,048	168,000	1,018	170,066
Sales costs and working capital adjustment	(7,127)	3,385	62	(3,680)
<b>Net sales proceeds</b>	<b>(6,079)</b>	<b>171,385</b>	<b>1,080</b>	<b>166,386</b>
Less carrying value of subsidiary prior to sale	(6,312)	76,420	2,425	72,533
Less non-controlling interest disposed	-	-	702	702
<b>Net gain/(loss) on sale</b>	<b>233</b>	<b>94,965</b>	<b>(2,047)</b>	<b>93,151</b>
<b>Summary of results of discontinued operations</b>	<b>(14,742)</b>	<b>102,390</b>	<b>(2,347)</b>	<b>85,301</b>

## Carrying value of net assets disposed

2017 \$000	Tui oil	Kupe oil & gas	Pine Mills	Total
Cash and cash equivalents	1,091	5,326	-	6,417
Receivables and prepayments	1,535	5,923	430	7,888
Inventories	6,822	1,944	-	8,766
Property, plant and equipment	-	-	-	-
Oil and gas assets	18,068	127,033	2,576	147,676
Other financial assets	-	42	-	42
Payables	(1,384)	(10,558)	-	(11,942)
Current tax liabilities	-	(334)	-	(334)
Rehabilitation provision	(36,516)	(29,303)	(581)	(66,400)
Deferred tax asset/(liability)	4,072	(23,653)	-	(19,581)
<b>Net assets disposed</b>	<b>(6,312)</b>	<b>76,420</b>	<b>2,425</b>	<b>72,533</b>

## Cash flows from discontinued operations

2017 \$000	Tui oil	Kupe oil & gas	Pine Mills	Total
Net cash used in operating activities	1,657	19,300	(475)	20,482
Net cash used in investing activities	(8,597)	164,651	(23)	156,031
Net cash used in from financing activities	-	-	-	-
<b>Net cash (outflow)/inflow for discontinuing operations</b>	<b>(6,940)</b>	<b>183,951</b>	<b>(498)</b>	<b>176,513</b>

11. Discontinued Operations (continued)

Results of discontinued operations

2016 \$000	Tui oil	Kupe oil & gas	Pine Mills	Total
Revenue	19,546	49,936	1,073	70,555
Operating costs	(17,351)	(11,904)	(2,965)	(32,220)
Exploration and evaluation costs expensed	404	(17)	-	387
Other income	-	2,367	-	2,367
Other expenses	(126)	(617)	-	(743)
<b>Results from operating activities excluding amortisation, impairment and net finance costs</b>	<b>2,473</b>	<b>39,765</b>	<b>(1,892)</b>	<b>40,346</b>
Amortisation of production assets	(13,895)	(21,176)	(171)	(35,242)
Asset impairment	-	-	(1,308)	(1,308)
Net finance costs	(965)	(888)	134	(1,719)
<b>Profit/(loss) before income tax and royalties</b>	<b>(12,387)</b>	<b>17,701</b>	<b>(3,237)</b>	<b>2,077</b>
Income tax expense	(2,238)	(7,771)	(81)	(10,090)
Royalties expense	(1,023)	(2,276)	-	(3,299)
<b>(Loss)/profit after tax from discontinuing operations</b>	<b>(15,648)</b>	<b>7,654</b>	<b>(3,318)</b>	<b>(11,312)</b>

Cash flows from discontinued operations

2016 \$000	Tui oil	Kupe oil & gas	Pine Mills	Total
Net cash used in operating activities	14,939	30,055	(2,441)	42,553
Net cash used in investing activities	34	(3,745)	(189)	(3,900)
Net cash used in from financing activities	-	-	2,433	2,433
<b>Net cash inflow/(outflow) for discontinuing operations</b>	<b>14,973</b>	<b>26,310</b>	<b>(197)</b>	<b>41,086</b>



## 12. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, short-term deposits and deposits on call with an original maturity of three months or less.

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Cash at bank and in hand	13,350	37,379
Deposits at call	3,331	31,317
Short term deposits	108,357	20,768
Share of oil and gas interests' cash	65	7,347
<b>Total cash and cash equivalents at end of year</b>	<b>125,103</b>	<b>96,811</b>

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Cash and cash equivalents denominated by currency</b>	<b>Base</b>	<b>NZD</b>	<b>Base</b>	<b>NZD</b>
<b>\$000</b>	<b>Currency</b>	<b>Equivalent</b>	<b>Currency</b>	<b>Equivalent</b>
NZ dollar	81,988	81,988	16,148	16,148
US dollar	31,388	42,868	56,786	79,879
AU dollar	236	247	620	649
ID rupiah	-	-	1,264,547	135
<b>Total cash and cash equivalents at end of year</b>		<b>125,103</b>		<b>96,811</b>

### Deposits at call and short-term deposits

The deposits at call and short term deposits are bearing interest rates between 0.2% and 2.2% (2016: 0.1% and 2.6%).

## 13. Receivables and prepayments

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Trade receivables	864	6,193
Share of oil and gas interests' receivables	5,625	6,429
Prepayments	34	533
Other	-	1
<b>Total receivables and prepayments at end of year</b>	<b>6,523</b>	<b>13,156</b>

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Receivables and prepayments denominated by currency</b>	<b>Base</b>	<b>NZD</b>	<b>Base</b>	<b>NZD</b>
<b>\$000</b>	<b>Currency</b>	<b>Equivalent</b>	<b>Currency</b>	<b>Equivalent</b>
NZ dollar	1,803	1,803	4,198	4,198
US dollar	3,242	4,627	5,682	8,845
AU dollar	89	93	90	97
ID rupiah	-	-	148,642	16
<b>Total receivables and prepayments at end of year</b>		<b>6,523</b>		<b>13,156</b>

## 14. Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, has exposure or rights to variable returns from this involvement and when it has the ability to use its power to affect the amount of the returns.

At 30 June 2017 the Group holds a 50.04 per cent interest in Cue Energy Resources Limited (30 June 2016: 48.11 per cent). Cue entities below reflect the Group's 50.04 per cent interest in Cue subsidiaries.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position respectively.

#### 14. Investments in subsidiaries (continued)

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 functional currency of the subsidiaries within the Group are shown below.

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

Name of entity	Country of incorporation	Equity Holding		Functional Currency
		2017	2016	
<u>New Zealand Oil &amp; Gas</u>				
ANZ Resources Pty Limited	Australia	100%	100%	AUD
Australia and New Zealand Petroleum Limited	New Zealand	100%	100%	NZD
Kupe Royalties Limited (i)	New Zealand	-	100%	NZD
National Petroleum Limited (i)	New Zealand	-	100%	NZD
Nephrite Enterprises Limited (i)	New Zealand	-	100%	NZD
NZOG 54867 Limited	New Zealand	100%	100%	NZD
NZOG 38483 Limited	New Zealand	100%	100%	NZD
NZOG 2013 O Limited	New Zealand	100%	100%	NZD
NZOG Asia Pty Limited	Australia	100%	100%	USD
NZOG Bohorok Pty Limited	Australia	100%	100%	USD
NZOG 54857 Limited	New Zealand	100%	100%	NZD
NZOG Developments Limited	New Zealand	100%	100%	NZD
NZOG Devon Limited	New Zealand	100%	100%	NZD
NZOG 2013T Limited	New Zealand	100%	100%	NZD
NZOG Energy Limited	New Zealand	100%	100%	NZD
NZOG Palmerah Baru Pty Limited	Australia	100%	100%	USD
NZOG Offshore Limited	New Zealand	100%	100%	NZD
NZOG Pacific Holdings Pty Limited	Australia	100%	100%	USD
NZOG Pacific Limited	New Zealand	100%	100%	NZD
NZOG Services Limited	New Zealand	100%	100%	NZD
NZOG Taranaki Limited	New Zealand	100%	100%	NZD
NZOG Tunisia Pty Limited	Australia	100%	100%	USD
Oil Holdings Limited	New Zealand	100%	100%	NZD
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	90%	90%	USD
Petroleum Equities Limited (i)	New Zealand	-	100%	NZD
Petroleum Resources Limited	New Zealand	100%	100%	NZD
Resource Equities Limited	New Zealand	100%	100%	NZD
Stewart Petroleum Co Limited (i)	New Zealand	-	100%	USD
NZOG MNK Kisaran Pty Limited	Australia	100%	100%	USD
NZOG MNK Bohorok Pty Limited	Australia	100%	100%	USD
NZOG MNK Palmerah Pty Limited	Australia	100%	100%	USD
<u>Cue Energy Resources *</u>				
Cue Energy Resources Limited	Australia	50.04%	48.1%	AUD
Cue Mahakam Hilir Pty Limited	Australia	50.04%	48.1%	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	50.04%	48.1%	AUD
Cue Sampang Pty Limited	Australia	50.04%	48.1%	AUD
Cue Taranaki Pty Limited	Australia	50.04%	48.1%	AUD
Cue Resources Inc	USA	50.04%	48.1%	USD
Buccaneer Operating LLC	USA	-	48.1%	USD
Cue Kalimantan Pte Ltd	Singapore	50.04%	48.1%	USD
Cue Mahato Pty Ltd	Australia	50.04%	48.1%	AUD
Cue Exploration Pty Limited	Australia	50.04%	48.1%	AUD
Cue Cooper Pty Ltd	Australia	50.04%	48.1%	AUD
Cheetah Energy Services LLC	USA	-	48.1%	USD

(i) Refer to note 11.

All subsidiary companies have a balance date of 30 June with the exception of Pacific Oil & Gas (North Sumatera) Limited which has a 31 December balance date. All subsidiaries are predominantly involved in the petroleum exploration and production industry.

## 15. Oil and gas interests

The Group has interests in a number of joint arrangements which are classified as joint operations. The Group financial statements include a proportional share of the oil and gas interests' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

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

Name	Type	Country	Ownership 2017	2016
<u>New Zealand Oil &amp; Gas</u>				
PML 38146 – Kupe (v)	Mining Licence	New Zealand	-	15.0%
PMP 38158 – Tui (vi)	Mining Permit	New Zealand	-	27.5%
PEP 52717 – Clipper	Exploration Permit	New Zealand	50.0%	50.0%
PEP 51906 – Matuku (iii)	Exploration Permit	New Zealand	-	12.5%
PEP 55792 – Galleon (iv)	Exploration Permit	New Zealand	-	100.0%
PEP 55793 – Vulcan (vii)	Exploration Permit	New Zealand	-	30.0%
PEP 55794 - Toroa	Exploration Permit	New Zealand	30.0%	30.0%
Kisaran PSC	Production Sharing Contract	Indonesia	22.5%	22.5%
Bohorok PSC	Production Sharing Contract	Indonesia	45.0%	45.0%
Palmerah Baru PSC	Production Sharing Contract	Indonesia	36.0%	36.0%
MNK Kisaran PSC (viii)	Production Sharing Contract	Indonesia	11.3%	11.3%
MNK Palmerah PSC (viii)	Production Sharing Contract	Indonesia	15.8%	15.8%
MNK Bohorok	Joint Study Agreement	Indonesia	20.3%	20.3%
<u>Cue Energy Resources *</u>				
WA-359-P	Australia	Exploration Permit	100.0%	100.0%
WA-389-P	Australia	Exploration Permit	40.0%	40.0%
WA-409-P	Australia	Exploration Permit	20.0%	100.0%
PEP 51313 (ii)	New Zealand	Exploration Permit	-	14.0%
PEP 51149 (ii)	New Zealand	Exploration Permit	-	20.0%
PEP 54865 (ii)	New Zealand	Exploration Permit	-	20.0%
Mahakam Hilir PSC	Indonesia	Production Sharing Contract	100.0%	100.0%
PMP 38160 – Maari	New Zealand	Mining Permit	5.0%	5.0%
Sampang PSC	Indonesia	Production Sharing Contract	15.0%	15.0%
Mahato PSC	Indonesia	Production Sharing Contract	12.5%	12.5%
Pine Mills (i)	USA	Mining Permit	-	80.0%

- (i) Pine Mills permit was sold 16 November 2016
- (ii) PEP 51313, PEP 51149 and PEP 54865 were withdrawn in the third quarter of 2016
- (iii) PEP 51906 – Matuku was surrendered on 16 August 2016
- (iv) PEP 55792 – Galleon was surrendered on 27 September 2016
- (v) PML 38146 – Kupe license was sold with effective date 1 January 2017
- (vi) PML 38158 – Tui permit was sold with effective date 1 January 2017
- (vii) PEP 55793 – Vulcan was surrendered on 27 April 2017
- (viii) In August 2017 an agreement was signed to sell the MNK Kisaran PSC and MNK Palmerah PSC to Bukit Energy. Completion has not yet taken place

\* represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 50.04% (2016: 48.1%) of the Cue interest.

## 15. Oil and gas interests (continued)

### Share of oil and gas interests' assets and liabilities

\$000	2017	2016
<b>Current assets</b>		
Cash and cash equivalents	65	7,347
Trade receivables	806	7,003
Inventory	779	2,440
<b>Non-current assets</b>		
Petroleum interests (ii)	53,911	479,641
Total assets	55,560	496,431
<b>Current liabilities</b>		
Short-term liabilities	2,437	7,594
Total liabilities	2,437	7,594
<b>Net assets</b>	53,123	488,837
<b>Share of oil and gas interests' Loss</b>		
Revenue (i)	-	4
Expenses	(14,559)	(14,061)
<b>Loss before income tax</b>	(14,559)	(14,057)

Interests relating to Tui, Kupe and Pine Mills are not included in 2017.

(i) Revenues above do not include petroleum sales in relation to the Maari field, as the Group's share of production volumes are transferred from the Joint Venture to wholly owned subsidiaries and invoiced directly by the subsidiaries to third parties.

(ii) Petroleum interests are prior to amortisation of production assets and borrowings.

## 16. Evaluation and exploration

The Group uses the successful efforts method of accounting for oil and gas exploration costs. All general exploration and evaluation costs are expensed as incurred except the direct costs of acquiring the rights to explore, drilling exploratory wells and evaluating the results of drilling. These direct costs are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

### Key judgement: recoverability of exploration and evaluation assets

Assessment of the recoverability of capitalised exploration and evaluation expenditure requires certain estimates and assumptions to be made as to future events and circumstances, particularly in relation to whether economic quantities of reserves have been discovered. Such estimates and assumptions may change as new information becomes available. If it is concluded that the carrying value of an exploration and evaluation asset is unlikely to be recovered by future development or sale, the relevant amount will be expensed in the profit and loss.

Capitalised exploration and evaluation assets, including expenditure to acquire mineral interests in oil and gas properties, related to wells that find proven reserves are classified as development assets within oil and gas assets at the time of sanctioning of the development project.

\$000	2017	2016
Opening balance	14,580	15,258
Impairment of exploration asset	(7,567)	-
Revaluation of USD exploration and evaluation assets	(321)	(678)
<b>Closing balance at end of year</b>	<b>6,692</b>	<b>14,580</b>

## 16. Evaluation and exploration (continued)

The valuation of the Kisaran development asset has been revised based on recent transactions for the sale of interests which show that the realisable value is closer to US dollars \$4.9 million.

In May 2017, Cue Energy announced that an ongoing dispute relating to an exploration well in the Jeruk field within the Sampang PSC in Indonesia had been settled for US dollars \$6.8 million. The settlement was paid in May 2017 and US dollars \$6.8 million is included in Exploration and Evaluation expenditure in the Consolidated Statement of Cash Flows. US dollars \$4.6 million had previously been accrued in the profit and loss so in the current year US dollars \$2.2 million is expensed in Exploration and evaluation expenditure in the Consolidate Statement of Comprehensive Income (see note 21).

## 17. Oil and gas assets

### Development

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and development wells. No amortisation is provided in respect of development assets until they are reclassified as production assets.

### Production assets

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves are amortised using the units of production method or on a basis consistent with the recognition of revenue.

### Subsequent costs

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

### Impairment

The carrying value is assessed for impairment each reporting date. 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 profit or loss and in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are reassessed at each reporting date and the 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 previously.

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Opening balance	<b>207,937</b>	289,356
Expenditure capitalised	<b>5,012</b>	6,843
Impairment (i)	<b>(7,694)</b>	(26,605)
Amortisation for the year	<b>(24,880)</b>	(51,043)
Depreciation for the year	-	(30)
Revaluation of USD production assets	<b>3,066</b>	(7,482)
Abandonment provision	<b>(3,808)</b>	1,005
Transfer to asset held for sale (ii)	-	(4,107)
Disposals (iii)	<b>(147,676)</b>	-
<b>Closing balance at end of year</b>	<b>31,957</b>	207,937

## 17. Oil and gas assets (continued)

(i) At 30 June 2017 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in an impairment loss of \$7.7 million (30 June 2016: \$26.6 million) being recognised. This Impairment relates to the Maari oil and gas asset and is included in Asset impairment in the profit and loss.

Estimates of recoverable amounts of oil and gas assets are based on their value in use with a discount rate of 10% applied. The oil price assumptions used are based on forward prices, rising to consensus mean after 4 years.

(ii) The Pine Mills oil asset was transferred to 'assets held for sale' and treated as a current asset.

(iii) During the year the Groups interest in the Kupe, Tui and Pine Mills assets were sold (see note 11).

In May the Group agreed to purchase Mitsui E&P Australia's 4 per cent interest in the Kupe gas and light oil field for \$35 million. The Group previously held a 15 per cent share in the Kupe field, which was sold to Genesis Energy at a premium on 1 January 2017.

The acquisition is not consolidated into the Group at 30 June 2017 as the sale has not yet been completed. Before Mitsui's interest can pass, joint venture and regulatory approvals are required. In July 2017 the Group received confirmation that the other joint venture participants would not exercise their pre-emptive purchase rights. Overseas Investment Office approval is still pending. No consideration has yet been paid. It is expected that the remaining condition will be satisfied post 30 June 2017.

The fair value of assets and liabilities acquired has yet to be finalised and as a result this information has not been disclosed. Any goodwill/bargain gain on acquisition can only be determined once the fair value of assets and liabilities acquired have been finalised. Further details on the acquisition will be disclosed in the Interim Report for 31 December 2017.

Acquisition related costs amounting to \$0.4 million have been expensed as incurred in the profit or loss within 'other operating expenses'.

## 18. Other financial assets

\$000	2017	2016
Performance bonds	16	1,891
<b>Total other financial assets at end of year</b>	<b>16</b>	<b>1,891</b>

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable once conditions are met under the joint study agreement and production sharing contracts.



## 19. Payables

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Trade payables	2,328	4,886
Stock over lift payable (i)	-	1,015
Royalties payable	174	1,250
Share of oil and gas interests' payable	2,437	8,362
Other payables	845	1,886
<b>Total payables at end of year</b>	<b>5,784</b>	<b>17,399</b>

(i) Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in the profit or loss.

	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
<b>Payables denominated by currency</b>	<b>Base Currency</b>	<b>NZD Equivalent</b>	<b>Base Currency</b>	<b>NZD Equivalent</b>
NZ dollar	2,435	2,435	5,650	5,650
US dollar	1,482	2,023	5,982	8,623
AU dollar	1,247	1,310	2,747	3,010
ID rupiah	146,376	16	737,876	116
<b>Total payables at end of year</b>		<b>5,784</b>		<b>17,399</b>

## 20. Rehabilitation Provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 2.46% from the United States. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

<b>\$000</b>	<b>2017</b>	<b>2016</b>
<b>Carrying amount at start of year</b>	<b>79,006</b>	78,930
(Reduction)/addition in provision recognised	(2,302)	1,405
Foreign currency revaluation of provisions	-	(3,034)
Unwinding of discount	-	1,705
Reduction in provision due to disposal of Tui and Kupe assets	(66,400)	-
<b>Carrying amount at end of year</b>	<b>10,304</b>	79,006
Current	-	1,548
Non-current	10,304	77,458
<b>Carrying amount at end of year</b>	<b>10,304</b>	79,006

## 21. Other provisions

The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of a provision assumed as at 31 March 2015. The provision related to a dispute between Cue and another party, whereby Cue may in certain circumstances have an obligation to reimburse monies to the other party from future profits in Sampang PSC, Indonesia. The matter was settled in May 2017 with Cue paying US dollar \$6.8 million in settlement of monies owed. US dollars \$4.6 million had been accrued to date with the balance of US dollars \$2.2 million being expensed.

## 22. Share capital

	Number of shares 000s	\$000
Balance at 1 July 2015	345,864	319,060
Shares issued during the year	151	68
Partly paid shares issued	1,672	7
Shares cancelled as part of buyback program	(2,174)	(1,046)
<b>Balance at 30 June 2016</b>	<b>345,513</b>	<b>318,089</b>
Shares issued during the year	-	1
Partly paid shares issued	2,596	(27)
Shares cancelled as part of buyback program	(17,151)	(9,434)
Shares cancelled as part of capital return	(159,427)	(99,999)
Partly paid shares forfeited	(3,682)	-
<b>Balance at 30 June 2017</b>	<b>167,849</b>	<b>208,630</b>
Comprised of:		
Fully paid shares	159,429	208,570
Partly paid shares	8,420	60
<b>Balance at 30 June 2017</b>	<b>167,849</b>	<b>208,630</b>

No ordinary shares were issued during the year (2016: 0.2 million shares transferred from partly paid shares to fully paid ordinary shares).

There were 2.6 million shares partly paid shares issued under the ESOP plan (2016: 1.7 million), this included 1.0 million shares awarded to the CEO on his appointment. During the year 3.7 million partly paid shares were forfeited and converted into fully paid shares and immediately cancelled. Partly paid shares are entitled to a vote in proportion to the amount paid up. Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 27.

All fully paid shares have equal voting rights and share equally in dividends and equity.

In August 2015 the shareholders approved a share buyback program and the Group commenced a buyback in April 2016. During the year 17.2 million shares were cancelled as part of the buyback program (2016: 2.2 million).

In May 2017 the Group cancelled 1 in every 2 ordinary shares and paid \$0.672 per ordinary share cancelled. The total capital returned to ordinary shareholders was \$100 million.

## 23. Reserves

### (a) Reserves

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Share based payments reserve	147	115
Foreign currency translation reserve	6,051	936
<b>Total reserves at end of year</b>	<b>6,198</b>	<b>1,051</b>

#### Movements:

<b>\$000</b>	<b>2017</b>	<b>2016</b>
<b>Share-based payments reserve</b>		
Opening balance at 1 July	115	68
Share based payment expense for the year	32	93
Transfer of expired share based payments during the year	-	(46)
<b>Closing balance at end of year</b>	<b>147</b>	<b>115</b>

<b>\$000</b>	<b>2017</b>	<b>2016</b>
<b>Foreign currency translation reserve</b>		
Opening balance at 1 July	936	8,903
FCTR on disposal of Tui	6,359	-
Foreign currency translation differences for the year	(1,244)	(7,967)
<b>Closing balance at end of year</b>	<b>6,051</b>	<b>936</b>

### (b) Nature and purpose of reserves

#### (i) 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. The reserve is recognised in other comprehensive income when the net investment is disposed of.

## 24. Profit/(Loss) per share

	<b>2017</b>	<b>2016</b>
Profit/(loss) attributable to shareholders (\$000)	62,695	(29,763)
Weighted average number of ordinary shares (000)	311,450	347,176
Basic and diluted earnings per share (cents)	20.0	(8.6)

## 25. Financial risk management

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

### (a) Market risk

#### (i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, performance bonds, oil sales, recoverable value of oil and gas assets and capital commitments that are denominated in foreign currencies. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements. The Group may enter into foreign currency hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

#### (ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence. The Group had no option call contracts at 30 June 2017 (2016: \$1.4 million).

#### (iii) Concentrations of interest rate exposure

The Group has no external bank debt and therefore its main interest rate risk arises from short-term deposits held.

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults. Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short-term cash deposits, trade receivables and short-term funding arrangements. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties. The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

The Group may be exposed to financial risk if one or more of their joint venture partners is unable to meet their obligation in relation to the abandonment costs for jointly owned oil and gas assets. Under the joint venture operating agreement if one or more partners fails to meet their financial obligation, the other partners may become proportionately liable for their share of the financial obligations but would have contractual rights of recovery against the defaulting party.

### (c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has liquid funds to cover potential shortfalls.

The following table sets out the contractual cash flows for all non-derivative financial liabilities and for derivatives that are settled on a gross cash flow basis:

30 June 2017 \$000	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
Payables	5,784	-	-	-	-	5,784
Tax liabilities	2,926	-	-	-	-	2,926
<b>Total non-derivative liabilities</b>	<b>8,710</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,710</b>

## 25. Financial risk management (continued)

30 June 2016 \$000	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
Payables	17,399	-	-	-	-	17,399
Tax liabilities	3,175	-	-	-	-	3,175
<b>Total non-derivative liabilities</b>	<b>20,574</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20,574</b>

At 30 June 2017 the Group had no derivatives to settle (2016: \$Nil).

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

### (e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity prices and currency risks. The Group's exposure to these risks is described in note 25(a).

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

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at 30 June 2017 would be to decrease the Group profit before tax by \$2.1 million and decrease the foreign currency translation reserve in equity by \$0.7 million (2016: \$2.4 million increase on loss before tax and \$1.8 million decrease in the foreign currency translation reserve).

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by \$1.2 million (2016: \$1.0 million increase), based on maintaining current cash balances.

### (f) Recognised assets and liabilities

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

### (g) Financial instruments by category

<b>\$000</b>	<b>2017 Carrying value</b>	<b>2016 Carrying value</b>
<b>Assets</b>		
Cash and cash equivalents	125,103	96,811
Trade and other receivables	6,489	12,623
	<b>131,592</b>	<b>109,434</b>
<b>Liabilities</b>		
Payables	5,784	17,399
Borrowings	1,146	1,137
	<b>6,930</b>	<b>18,536</b>

The fair value and amortised cost of financial instruments is equivalent to their carrying value.

## 26. Related party transactions

Related parties of the Group include those entities identified in notes 14 and 15 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms. There have been no material transactions with related parties during the year.

A number of directors are also non-executive directors of other companies and any transactions undertaken with these entities have been entered into as part of the ordinary business.

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group. Cue management personnel have been included.

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Short term employee benefits	<b>4,594</b>	6,610
Share based payments	<b>18</b>	27
Termination benefits	<b>1,620</b>	107
<b>Total</b>	<b>6,232</b>	6,744

## 27. Share-based payments

The Group operates an Employee Share Ownership Plan (ESOP) which is open to nominated employees. Under the plan there are currently 8.4 million (June 2016: 9.5 million) partly paid shares for which employees have paid \$0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2017 \$0.03 million (June 2016: \$0.09 million) was expensed through the Consolidated Statement of Comprehensive Income. A total of 2.6 million (June 2016: 2.3 million) shares were awarded, no shares vested (June 2016: 0.2 million shares vested during the year at an average cost of \$0.45 per share), and expired/forfeited shares totalling 3.7 million (June 2016: 0.5 million) were sold or converted to ordinary shares and cancelled. A further 1.8 million (June 2016: 0.1 million) shares were forfeited and remain unallocated.

## 28. Commitments and contingent assets and liabilities

### (a) Exploration expenditure commitments

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

Cue's exploration portfolio includes a commitment of AU\$31.3 million which relates to Australian permit WA359P which contains the Ironbark prospect. This permit is currently being marketed and a farm out process is ongoing.

### (b) Operating leases and commitments

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

<b>\$000</b>	<b>2017</b>	<b>2016</b>
Within one year	<b>519</b>	1,032
Later than one year and not later than five years	<b>280</b>	446
	<b>799</b>	<b>1,478</b>

During the year ended 30 June 2017 \$0.7 million was recognised as an expense in profit or loss in respect of operating leases (2016: \$0.7 million).

The Group is not committed to any operational commitments. Previously the Group was committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the previous year was \$11.5 million.



## 28. Commitments and contingent assets and liabilities (continued)

### (c) Contingent assets and liabilities

The group has no contingent assets and liabilities.

The contingent liability disclosed at 30 June 2016 has been settled (see note 21).

## 29. Events occurring after balance date

On 10 August 2017 a takeover notice pursuant to rule 41 of the Takeover code was received from Zeta Energy Pte Limited (Zeta) of their intention to make a partial takeover offer to acquire an additional 41.955% of each class of share not currently held or controlled by Zeta. If successful the offer would result in Zeta holding or controlling no less than 50.01% of the voting rights of the Group.

Subsequent to 30 June 2017 the Directors have approved a fully imputed dividend of 4 cents per share which is equal to \$6.4 million to be paid on 3 November 2017 (2016: 4 cents per share paid on 25 October 2016).



# Independent Auditor's Report

To the shareholders of New Zealand Oil and Gas Limited

## Report on the consolidated financial statements

### Opinion

In our opinion, the accompanying consolidated financial statements of New Zealand Oil and Gas Limited (the company) and its subsidiaries (the group) on pages 2 to 27:

- i. present fairly in all material respects the Group's financial position as at 30 June 2017 and its financial performance and cash flows for the year ended on that date; and
- ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

- the consolidated statement of financial position as at 30 June 2017;
- the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and
- notes, including a summary of significant accounting policies and other explanatory information.



### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report.

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



### Scoping

The context for our audit is established by the Group's major activities each financial year. In the current year the Group sold its two major producing assets.

In November 2016 the Group announced that it had reached an agreement to sell its 15% interest in the Kupe gas and oil fields and production station ('Kupe') to Genesis Energy for NZ\$168 million. On 16 December 2016, the shareholders approved the disposal of Kupe in a Special General Meeting. In February 2017 the Group accepted an offer for its 27.5 per cent interest in the Tui area oil fields off Taranaki, New Zealand. Both transactions were completed with an effective date of 1 January 2017.



The scope of our audit is designed to ensure that we perform enough work to be able to give an opinion on the Consolidated Financial Statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

The Consolidated Financial Statements includes the 50.04% shareholding in Cue Energy Limited ('Cue'). In establishing the scope of audit work to be performed by the Component auditor for Group consolidation purposes, we determined the nature and extent of work to be performed would be a full scope audit. We kept in regular communication with component audit team throughout the year with discussions and formal instructions, including review of work performed, where appropriate. We also ensured that the component audit team had the appropriate skills and competencies which are needed for the audit.



## Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at \$2.3 million determined with reference to a benchmark of group profit before tax. We chose the benchmark because, in our view, this is a key measure of the group's performance.



## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period.' Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

### The key audit matter

### How the matter was addressed in our audit

#### Major Transactions

In January 2017 the Group completed the sale of its 15% interest in the Kupe gas field ('Kupe') for cash consideration of \$168 million, resulting in a gain on sale of \$96 million.

In February 2017 the Group completed the sale of its 27.5% interest in the Tui area oil fields ('Tui') which resulted in a gain on sale of \$0.2 million

Note 11 to the financial statements discloses the gain on disposal of Kupe and Tui as well as the results from and cash flows attributable to the discontinued operations.

This has been an area of focus given the significance of disposing two major operating segments, and the complexity and judgement in accounting for these disposals, specifically in determining the net assets and liabilities to be included in the disposal group

Our audit procedures over these major transactions included;

- Reviewing the sale and purchase agreements and agreeing the elements of the gain calculation to them;
- Agreeing the sale proceeds received to the sale and purchase agreements and cash received;
- Reviewing management's consolidation of Kupe and Tui up to the date of disposal;
- Agreeing the net assets disposed to the completion accounts and the closing net asset position; and
- Assessing the appropriate disclosures included in the financial statements.

## Recoverability of Oil and Gas Assets

Post the sale of Kupe and Tui, the Group's oil and gas assets include Maari and Sampang production assets held via its investment in Cue Energy Limited.

As noted in Note 17 the remaining carrying value of oil and gas assets on the balance sheet as at 30 June 2017 was \$32 million (2016: \$208 million).

Key judgements involved in assessing the recoverable value of the remaining oil and gas assets include:

- Future oil and gas prices;
- Oil and Gas reserves and forecast production levels;
- Discount rate; and
- Future operating costs and capital costs.

The procedures performed to assess the reasonableness of the recoverable value of the oil and gas assets included:

- comparing future oil price assumptions with third party forecasts and publicly available forward price curves;
- comparing future gas price assumptions to either contracted gas or third party forecasts;
- comparing the production profiles and proved and probable reserves to third party reserve reports. Reviewing the reserve report to determine if the assumptions were reasonable and in line with our understanding and expectations;
- challenging the discount rate used by comparing it to market participants and industry research; and
- assessing estimated future costs by comparing to approved budgets and where applicable, third party data and historical trends.

## Other Information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's review, Chief Executive's report, disclosures relating to productions and reserves, corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.



## Use of this Independent Auditor's Report

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the shareholders those matters we are required to state to them in the Independent Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders as a body for our audit work, this report, or any of the opinions we have formed.



## Responsibilities of the Directors for the Consolidated Financial Statements

The Directors, on behalf of the group, are responsible for:



- the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;
- implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is fairly presented and free from material misstatement, whether due to fraud or error; and
- assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

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## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objective is:

- to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Independent Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

[https://www.xrb.govt.nz/Site/Auditing\\_Assurance\\_Standards/Current\\_Standards/Page1.aspx](https://www.xrb.govt.nz/Site/Auditing_Assurance_Standards/Current_Standards/Page1.aspx)

This description forms part of our Independent Auditor's Report.

David Gates

For and on behalf of

KPMG

Wellington

29 August 2017