NEW ZEALAND OIL & GAS LIMITED

half year report

to 31 December 2005

HIGHLIGHTS

Developments

- Tui and Pike developments underway
- Tui US$37.5 million debt facility in place
- Major new investor in Pike River Coal
- Drilling rig contracted for Kupe development

Exploration

- Hector well drilling likely this year

Corporate

- $12 million raised from institutional share placement
- Issue of free options to all shareholders

Photo: courtesy of ENSCO Asia Pacific

CHAIRMAN'S OVERVIEW

During the half year ended 31 December 2005, the Company made two important investment decisions:

- to participate in the development of the Tui Area oil fields; and
- to proceed to develop the Pike River coking coal mine.

In March 2006, NZOG entered into a US$37.5 million finance facility agreement which equates to NZOG's share of budgeted development costs and related contract deposits for the Tui oil development.

Funding of the Pike River mine was assisted by the entry of Indian-based Saurashtra Fuels Private Ltd as a key investor who, together with NZOG and other existing shareholders, will have contributed $40 million of additional equity into Pike River Coal Company by 31 March 2006. The remaining capital funding of approximately $100 million, is to be raised via a mix of bank finance and a public offering ("IPO") of shares and options.

Funds invested by NZOG into the Tui, Pike and Kupe projects amounted to $16.7 million for the half year. By comparison, exploration expenditures were modest, mainly consisting of refinements of prospects yet to be drilled, such as Tieke and Taranui (both close to the Tui fields), Taitapa (South of Kupe) and Felix (North Taranaki). Exploration drilling is likely to recommence later this year with a well drilled in the Hector prospect.

NZOG started the financial year in a very sound financial position, having received $43 million from investors who converted their options into shares at a price of 60 cents each. An additional $12 million was raised in December 2005, through a placement of shares at 90 cents each. The bulk of these new shares were placed with institutional investors, who now have a more significant presence in the Company.

Overall, NZOG's development projects are progressing very well. Exploration drilling is expected to recommence in the second half of 2007.

On behalf of the Directors

R A Radford
Executive Chairman
27 February 2006

2005 HALF YEAR REPORT

The Half Year Report ending 31 December 2005 of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.

R F Meyer Director 27 February 2006	R A Radford Director 27 February 2006

New Zealand Oil & Gas Limited NZ Reg. Coy. No.WN 037 842 ARBN 003 064 962

DEVELOPMENTS

Tui Oil Area (PMP 38158 NZOG 12.5%)

Semi-submersible drilling unit

Development Decision

All partners in the project made a formal decision to develop the Tui Area oil fields in November 2005 and petroleum mining permit PMP38158 was granted over the fields and satellite prospects by the Minister of Energy. NZOG's decision to develop Tui was based on US$40/barrel oil.

Drilling of the Tui production wells is to commence in the December 2006 quarter, to synchronise with arrival of the leased Floating Production Storage and Offloading vessel ("FPSO") in the March 2007 quarter. Oil production is scheduled to commence in the June 2007 quarter.

Project Description

The Tui Area development encompasses the Tui, Amokura and Pateke oil accumulations. These adjacent fields were discovered by NZOG and its co-venturers in 2003/2004. The development, in water depths of around 120 metres, will involve four horizontally drilled and subsea completed wells, each of which will be individually tied back to the leased FPSO. The capital budget for the development (which excludes the costs of the leased FPSO) is US$204 million (NZOG's share US$26 million).

Prosafe Production Services Pty Ltd ("Prosafe") has been contracted to build and operate the FPSO. The contract with Prosafe is for a fixed initial term of 5 years at a contract value of US$178 million, and with options exercisable by the Tui joint venture for five one year extensions. Prosafe have built and operate a number of similar FPSOs.

Recoverable oil reserves for the Tui Area oil fields are estimated by the operator to be 26.8 million barrels on a probabilistically derived P50 basis. An independent reserves report prepared for NZOG by West Australian consultancy firm, RISC, has confirmed this reserves estimate.

The project facilities are designed for a maximum initial oil flow rate of 50,000 barrels of oil per day. Due to the nature of the reservoirs, liquids production is expected to remain high but with a relatively rapid rise in water production and associated decline in oil rate. To maximise ultimate oil recovery the FPSO is being designed to handle up to approximately 120,000 barrels per day of liquid. The FPSO oil storage capacity will be in excess of 700,000 barrels, to utilise a range of differently sized offtake oil tankers efficiently. The predominant market for the light sweet (higher value due to simple refining and low in sulphur) Tui Area oil is expected to be the Asia Pacific region including Australian East Coast refineries.

The joint venture has executed contracts for all major equipment and services, including wellheads and subsea trees, subsea well control system, subsea flowlines and umbilicals and their installation, and tubulars for the wells.

Exploration Drilling

The Tui joint venture has agreed to drill two satellite prospects, Tieke and Taranui, within the mining permit, most likely in conjunction with the Tui development drilling programme. Any resultant discoveries could be linked with the Tui production facilities.

Financial

In March 2006, NZOG entered into a US$37.5 million facility to fund the Company's share of the Tui development costs and associated contract deposits. NZOG has hedged a portion of production via "put" options at US$50/barrel as a first stage of hedging approximately 50% of production.

PIKE RIVER (MP41453 NZOG 68.7% via PRCC)

Ngati Waewae whakawatea for Pike road

First major bridge at Pike

Development Decision/Financial

Pike River Coal Company Limited ("PRCC") made a formal decision to develop the Pike River coal coking coal mine in September 2005. This followed the introduction of Indian coking coal company Saurashtra Fuels Private Limited as a major new investor by investing $17 million for a 10.6% stake in PRCC. When combined with additional investments by NZOG and existing minorities, $40 million in new equity has been raised.

PRCC intends to raise the remaining funding for the development of approximately $100 million through a combination of debt and equity. Debt financing discussions with a number of international banks are underway and planning is proceeding towards initial public offering ("IPO") targeted for the current half year to 30 June 2006.

Transport

A long term transport contract was executed during December 2005 by PRCC and the West Coast Coal Company ("WCCC"), a consortium comprising Port Taranaki Limited, TNL Group Limited, Wendell Group and Jebsens International. Execution of the transport contract for delivery and export of up to 1.3 million tonnes of coal per annum will see WCCC invest $80 million in port and shipping facilities. This contract is subject to parties completing their financing arrangements.

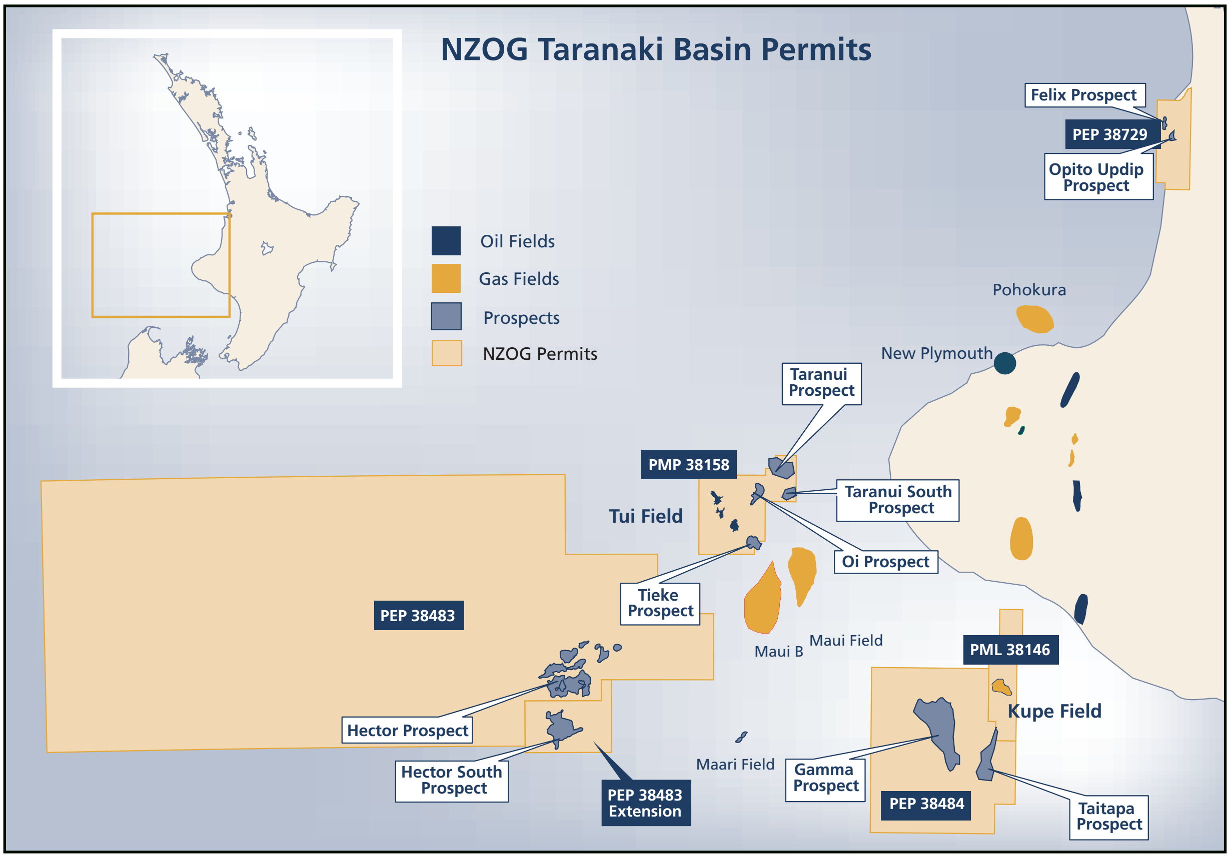
WCCC will take responsibility for all aspects of handling and freighting coal from the mine stockpile areas to onboard export vessels at Port Taranaki. Coal will be trucked by TNL to the Greymouth port and then shipped in two purpose built coastal ships by Wendell/Jebsens to Port Taranaki. Design features of the special purpose vessels include the capability to transport large cargoes (up to 12,000 tonnes each) at shallow draft, significant manoeuvrability using the ships' own propulsion, and high standards for operational reliability and safety. The vessels will be constructed in China and each vessel will take approximately 18 months to build and then deliver to New Zealand.

From Port Taranaki, coal will be shipped in Panamax size vessels carrying loads of up to 65,000 tonnes to export markets in Asia, India, South America and Europe. Port Taranaki is currently dredging to deepen all berths to 12.5m, and has resource consents to dredge to 14m which would make this the deepest container port in New Zealand.

This new transport route represents a major innovation for New Zealand's coal export industry and should open up significant opportunities for future coal trade expansion.

Construction

Work on the access road commenced during December 2005, and is proceeding according to schedule. The first major bridge has been installed and completion of the remaining bridges to provide access for tunnel construction is on schedule for completion by the end of April 2006. Long lead orders are being placed for power supply transformers and other equipment.



KUPE GAS, OIL AND LPG (PML38146 NZOG 15%)

Development Status

ENSCO Oceanics International has been awarded the contract to drill the three wells required to develop the Kupe field. Bids have been received for construction of the production station, as momentum builds towards a formal development decision.

The development drilling program is expected to commence in the first half of 2007 and take approximately six months to complete. The ENSCO contract includes options in favour of the Kupe partners to drill up to three additional wells, either on Kupe or elsewhere. The drilling rig, the ENSCO 107, was recently launched and commissioned in Singapore. It will complete three projects in South East Asia, before mobilising to New Zealand in the first quarter of 2007.

Meanwhile, bids have been received for the onshore component, which includes construction of the production station and associated pipelines. The level of interest shown in these works from international contractors is promising and following further evaluation of bids and contract negotiation, a revised development budget will be completed by the operator (Origin Energy).

The Kupe project is on track for the joint venture to make the final investment decision in the first half of 2006. Approval within that time frame would result in gas and oil production during the second half of 2008.

EXPLORATION ACTIVITIES

Hector Prospect (PEP38483) 18.9%; Hector South sub-block 12.5%

The PEP38483 operator is in discussions with Diamond Offshore to use the Ocean Patriot rig to drill the Hector prospect (NZOG interest 18.9%). Agreement on the commercial terms is necessary.

Hector will be drilled into a structural closure in the Kapuni C sand level. This prospect is clearly delineated by 3D seismic data acquired last year and is located in a similar geologic setting to Tui. The Hector structure has an estimated potential of approximately 50 million barrels of recoverable oil, with significant upside if the structure is filled to "spill point".

The Hector South sub-block was added to PEP 38483 and the balance of PEP 38460 relinquished, contemporaneously with award of the Tui petroleum mining permit (PMP 38158) in November 2005. NZOG's interest in the Hector South Sub-block area is 12.5%.

Felix and Opito Area (PEP38729) 75%

A refraction seismic survey was recently completed in the onshore part of this permit. These data are being evaluated and will assist in the definition of the Felix and Opito-Updip structures.

The Felix structure is mapped as a four-way dip closure in the offshore part of the permit. The primary target is at the Kapuni C-sand level at a depth of approximately 2700 metres. The structure lies on the same paleogeographic depositional trend for the Eocene Kapuni sands present at the Maui and Pohokura fields.

The Opito-Updip structure lies in the onshore part of the permit north of the Opito-1 well that was drilled in 2002. Both the Felix and Opito-Updip structures are situated favourably to receive oil and/or gas charge from adjacent source rock depocentres.

West Kupe – Taitapa Prospect (PEP38484) 100%

The Company is continuing its endeavours to secure a drilling rig which, as indicated in previous reports to shareholders, is a major challenge in an overheated international drilling market. Taitapa is located in 70 metres of water. Talks continue with potential partners.

CORPORATE & ADMINISTRATION

Share Placement

During December 2005, a private placement of 13.3 million shares was made to institutional and other qualifying investors, equal to approximately 6% of the Company's issued shares. The issue was made at 90 cents per share which included rights to the 1:2 bonus option issue, raising $12 million to advance NZOG's oil and gas projects. This placement was required to ensure sufficent funds were available for the Company's projects pending finalisation of project financing.

Pan Pacific Petroleum Shares

The Company subscribed for additional shares in Pan Pacific Petroleum NL in December 2005 at a cost of NZ$3.1 million, taking its holding to 10.1%. The additional investment was made to increase the Company's exposure to the Tui oil fields and associated prospects.

Bonus Option Issue

NZOG's free 1:2 bonus option issue to shareholders was completed during December 2005 and resulted in the issue of 107,051,259 options. These options have traded in the range 10.6 to 13.8 cents.

FINANCIAL

NZOG reported a surplus of $2.3 million for the 6 months ended 31 December 2005. Total revenues of $4 million included interest income of $1.3 million and a $2.5 million gain from the effective reduction of NZOG's shareholding in PRCC as a result of the introduction of a new investor into that company.

During the half year ended 31 December 2005 NZOG invested $16.7 million in cash in its three development projects: Kupe gas/oil, Tui oil and Pike River coal. First production from the Tui and Pike River projects is scheduled to occur during the first half of 2007, with the Kupe gas/oil field expected to be on stream during 2008.

NZOG GROUP

Within this half year report, references to *NZOG* and *the company* are to be read as inclusive of subsidiary companies within the consolidated NZOG group.

ENERGY VALUES

1,000 standard cubic feet of gas yields approximately

1 gigajoule of heat

1 petajoule (PJ) = 1,000,000 gigajoules (GJ) = approximately 1 billion cubic feet (BCF)

1 gigajoule = 947,817 British Thermal Units (BTU)

Gas energy values vary depending on the carbon dioxide, other inerts and ethane and higher homologue content of the gas. Taranaki gas is generally around the above levels. For field reserve estimates where the gas quality is known, reserves can be accurately stated in PJ. For prospects where gas quality is not known the BCF is estimated volumetrically and the above assumptions applied in order to use consistent units of PJ. Calorific value is the basis for gas sales: $/GJ.

STATEMENT OF FINANCIAL PERFORMANCE

for the six months ended 31 December 2005

	Note	CONSOLIDATED Unaudited 6 months ended 31 Dec 2005 $000	CONSOLIDATED Unaudited 6 months ended 31 Dec 2004 $000	CONSOLIDATED Audited 12 months ended 30 June 2005 $000	PARENT COMPANY Unaudited 6 months ended 31 Dec 2005 $000	PARENT COMPANY Unaudited 6 months ended 31 Dec 2004 $000	PARENT COMPANY Audited 12 months ended 30 June 2005 $000
Total revenue	2(i)	4,021	319	584	2,104	272	948
Operating surplus/(deficit) before taxation	2(ii)	2,282	(1,320)	(2,463)	573	70	22,281
Taxation benefit/(expense)	17	10	(103)	(103)	-	-	-
Operating surplus/(deficit) after taxation		2,292	(1,423)	(2,566)	573	70	22,281
Net surplus/(deficit) for the period		2,292	(1,423)	(2,566)	573	70	22,281
Net surplus/(deficit) comprises:							
Parent interest		2,255	(1,406)	(2555)			
Minority interest	3	37	(17)	(11)			
		2,292	(1,423)	(2,566)			

STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2005

	Note	CONSOLIDATED Unaudited 6 months ended 31 Dec 2005 $000	CONSOLIDATED Unaudited 6 months ended 31 Dec 2004 $000	CONSOLIDATED Audited 12 months ended 30 June 2005 $000	PARENT COMPANY Unaudited 6 months ended 31 Dec 2005 $000	PARENT COMPANY Unaudited 6 months ended 31 Dec 2004 $000	PARENT COMPANY Audited 12 months ended 30 June 2005 $000
Equity at beginning of period		90,916	49,556	49,556	66,984	1,876	1,876
Total recognised revenues and expenses							
Net surplus/(deficit) for the period		2,255	(1,406)	(2,555)	573	70	22,281
Movement in minority interest during the period		37	(17)	(11)	-	-	-
Contribution from owners:							
Shares issued in subsidiary company (PRCC) to minority interest		8,156	1,121	1,099	-	-	-
Shares issued		11,833	-	89	11,833	-	89
Share options exercised	4(i)	1	103	42,738	1	103	42,738
Equity at end of period		113,198	49,357	90,916	79,391	2,049	66,984

The notes on pages 12 to 26 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 31 December 2005

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Current Assets							
Short term securities and cash deposits	5	33,416	11,805	49,663	22,954	11,846	48,269
Receivables	6	881	258	1,739	414	158	1,551
Inventories	7	116	150	116	-	-	-
Total Current Assets		34,413	12,213	51,518	23,368	12,004	49,820
Non-Current Assets							
Investment in associate company	9	2,280	3,750	2,603	2,280	3,750	2,603
Investment in subsidiaries	9	-	-	-	60,588	62,070	62,060
Investment in listed resource company	8	4,583	1,463	1,463	3,661	541	541
Fixed assets	10	316	252	277	180	187	198
Petroleum and coal interests	12	55,163	33,284	37,994	-	-	-
Other	13	20,314	85	55	-	-	-
Total Non-Current Assets		82,656	38,834	42,392	60,709	66,548	65,402
Total Assets		117,069	51,047	93,910	90,077	78,552	115,222
Current Liabilities							
Creditors	14	3,769	1,506	2,891	1,133	325	794
Provisions	15	102	184	103	102	90	103
Total Current Liabilities		3,871	1,690	2,994	1,235	415	897
Non-Current Liabilities	15	-	-	-	9,451	76,088	47,341
Total Liabilities		3,871	1,690	2,994	10,686	76,503	48,238
NET ASSETS		113,198	49,357	90,916	79,391	2,049	66,984
EQUITY							
Shareholders of the company	4	100,631	44,964	86,539	79,391	2,049	66,984
Minority Shareholders of the group	3	12,567	4,393	4,377	-	-	-
TOTAL SHAREHOLDERS' EQUITY		113,198	49,357	90,916	79,391	2,049	66,984

On behalf of the Board of Directors

R F Meyer
Director 27 February 2006

R A Radford
Director 27 February 2006

The notes on pages 12 to 26 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS

for the six months ended 31 December 2005

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2005	Unaudited 6 months ended 31 Dec 2004	Audited 12 months ended 30 June 2005	Unaudited 6 months ended 31 Dec 2005	Unaudited 6 months ended 31 Dec 2004	Audited 12 months ended 30 June 2005
		$000	$000	$000	$000	$000	$000
Cash Flows From Operating Activities							
Cash was received from:							
Interest received		1,120	289	537	1,128	276	496
Cash was paid for:							
Production expenses		-	-	113	-	-	-
Other payments to suppliers and employees		(1,570)	(1,304)	(2,551)	(544)	(1,150)	(2,055)
		(1,570)	(1,304)	(2,438)	(544)	(1,150)	(2,055)
Net cash flows from operating activities		(450)	(1,015)	(1,901)	584	(874)	(1,559)
Cash Flows From Investing Activities							
Cash was received from:							
Sale of investment in associate company		323	-	996	323	-	1,148
Sale of investment in subsidiary		-	-	-	-	-	4,539
Sale of shares in unlisted resource company		-	-	-	-	4,529	-
		323	-	996	323	4,529	5,687
Cash was paid for:							
Petroleum and coal expenditures		(16,680)	(5,534)	(9,252)	-	-	-
Security deposit		(20,249)	-	-	-	-	-
Purchase of other fixed assets		(77)	(205)	(261)	(14)	(205)	(248)
Purchase of shares in listed resource company		(3,120)	-	-	(3,120)	-	-
Purchase of shares in unlisted resource company		-	-	-	-	(1,481)	(1,481)
		(40,126)	(5,739)	(9,513)	(3,134)	(1,686)	(1,729)
Net cash flows from investing activities		(39,803)	(5,739)	(8,517)	(2,811)	2,843	3,958
Cash Flows From Financing Activities							
Cash was received from:							
Issue of shares in partly owned subsidiary (i)		10,677	1,120	1,093	-	-	-
Issue of shares from exercise of options		1,325	104	41,430	1,325	104	41,430
Issue of shares		11,833	-	90	11,833	-	90
Proceeds from repayments of loans		-	150	150	-	(6,609)	5,793
Other		(1)	-	-	-	(2)	(1)
		23,834	1,374	42,763	13,158	(6,507)	47,312
Cash was paid for:							
Repayment of borrowings	(ii)	-	-	-	(36,418)	-	(17,959)
Net cash flows from financing activities		23,834	1,374	42,763	(23,260)	(6,507)	29,353

Note:
(i) Pike River Coal Company Limited ("PRCC")
(ii) Parent company borrowings are all intercompany

The notes on pages 12 to 26 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (continued)

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Net (decrease)/increase in cash		(16,419)	(5,380)	32,345	(25,487)	(4,538)	31,752
Cash at beginning of period		49,663	17,695	17,695	48,269	16,459	16,459
Effect of exchange rate changes on cash		172	(510)	(377)	172	(75)	58
CASH AT END OF PERIOD		33,416	11,805	49,663	22,954	11,846	48,269
Made up as follows:							
Short term securities and cash deposits		33,416	11,805	49,663	22,954	11,846	48,269

RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating surplus/(deficit) after taxation	2,255	(1,406)	(2,555)	573	70	22,281
Adjust for non-cash items in operating surplus/(deficit):						
Provision against investment in subsidiaries	-	-	-	-	-	(23,190)
Provision against investment in associate companies	-	-	(1,031)	-	-	(1,031)
Provision against advances to associate companies	-	-	152	-	-	-
Depreciation	38	35	66	33	19	50
Loss on disposal of fixed asset	-	-	38	-	-	-
Provision for income tax	(10)	104	134	-	-	-
Loss on sale of plant and equipment	-	36	-	-	-	-
Write-off / (back) petroleum and coal expenditure	(18)	790	931	-	-	-
Write-off / (back) provision for impairment	-	(1,031)	-	-	(1,031)	-
Movement in minority interest	(2,485)	(116)	(12)	-	-	-
Changes in assets and liabilities:						
Decrease/(increase) in debtors	(517)	179	72	(215)	(32)	(81)
Increase/(decrease) in creditors	459	87	211	365	25	470
(Increase)/decrease in provisions	-	(203)	(284)	-	-	-
Items included in other cash flow categories:						
Exchange losses/(gains)	(172)	510	377	(172)	75	(58)
Net cash flows from operating activities	(450)	(1,015)	(1,901)	584	(874)	(1,559)

The notes on pages 12 to 26 form part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The reporting entity is New Zealand Oil & Gas Limited (‘the company’ or ‘NZOG’) and its subsidiary companies (‘the group’).

Statutory Base

The financial statements have been prepared in accordance with generally accepted accounting practice and in compliance with the Companies Act 1993 and the Financial Reporting Act 1993. The company is an issuer under the Financial Reporting Act 1993.

Measurement Base

The measurement base adopted is historical cost adjusted by the revaluation of certain assets.

Changes in Accounting Policies

There have been no material changes in accounting policies. All policies have been applied on bases consistent with those used in the previous period.

The financial statements have been prepared in accordance with FRS 24 “Interim Financial Statements” and should be read in conjunction with the previous Annual Report 30 June 2005.

Summarised hereafter are the significant accounting policies adopted.

Basis of Consolidation

(a) Principles of Consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the financial statements of the company together with the financial statements of its subsidiary companies.

The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method. All significant intercompany transactions have been eliminated on consolidation.

Where subsidiaries are acquired during the period, their results are included only from the date of acquisition, while for subsidiaries disposed of during the period, their results are included to the date of disposal.

(ii) Associate Companies

Where material, associate companies are equity accounted and investments in associate companies are shown at cost plus the share of movement in net assets since acquisition. Where, in the opinion of the directors, a permanent diminution in value has occurred, investments in associate companies are written down to their recoverable amount.

(iii) Treasury Capital

The treasury stock accounting method is used to remove the company's interest in shares held directly or indirectly in its own capital (‘treasury capital’). The effect is to reduce the company's externally available capital and reserves and to eliminate the investment in the company.

(b) Balance on Acquisition

On the acquisition of a subsidiary, the fair value of net identifiable assets is ascertained. The difference between the fair value and the cost of investment is brought to account either as a premium (goodwill) or discount on acquisition.

Goodwill is amortised by systematic charges against income over the appropriate periods in which benefits are expected to be realised, but not exceeding twenty years. The periods over which the amounts are to be amortised are subject to annual review.

Any discount on acquisition remaining after elimination against the fair value of the non-monetary assets of the subsidiary is taken to the statement of financial performance as a gain.

Production, Development, Exploration and Evaluation Expenditure

Expenditure incurred on petroleum and coal ‘areas of interest’ is accounted for using the successful efforts method. An area of interest is defined by the group as a licence or permit area. Exploration and evaluation expenditure (together with certain inter-group advances relative to these expenditures), is written off 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.

Where expenditure carried forward in an area of interest or any part thereof, exceeds the directors’ valuation of that area of interest the costs are written down to the directors’ valuation.

Directors’ valuations of areas of interest, especially projects at a pre-development stage, are dependent upon a number of factors that are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the ability to secure sales contracts, levels of reserves, production profiles, estimates of future product sales prices, operating costs, capital expenditures, availability of financing and tax losses and legislative changes.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(a) Production interests

Production interests comprise exploration, evaluation and development costs (excluding fixed asset expenditure) incurred in relation to areas of interest in which petroleum production has commenced. Expenditure on production interests is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable proven reserves. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

(b) Development interests

Development interests comprise costs incurred on areas of interest which are being developed for production.

No amortisation is provided in respect of development areas of interest until they are reclassified as production areas following commencement of petroleum production.

(c) Exploration and Evaluation interests

Exploration and evaluation interests comprise costs incurred in areas of interest for which rights of tenure are current and:

(i) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or

(ii) exploration and/or evaluation activities in the area 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, these areas are continuing.

The ultimate value of areas of interest is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of permits granted and joint venture agreements.

Sales of prospecting and mining permit rights are shown as revenue in the period earned.

Restoration and Rehabilitation Expenditure

Significant restoration and rehabilitation expenditure to be incurred subsequent to the cessation of production from production areas of interest is provided for and expensed in the statement of financial performance based on best estimates of the expenditure required to settle the present obligation at balance date.

Joint Ventures

Where material the group consolidates its interest in the assets, liabilities, revenues and expenses of unincorporated joint ventures under appropriate headings in the financial statements using the proportionate method of consolidation.

Petroleum Sales Revenue

Petroleum sales represent the group's share of invoiced sales following delivery of oil and gas products.

Unearned Income

Payments received under 'take or pay' sales contracts where gas is not yet delivered, are treated as unearned income. The payments are recognised as income in the statement of financial performance once the gas is delivered.

Trade Receivables

Trade receivables are stated at their estimated net realisable value.

Inventories

Field operation consumables and finished goods are valued at the lower of cost and net realisable value.

Land

Land is stated at cost, except where in the opinion of directors, there is a permanent diminution in value, in which case it is recorded as its estimated recoverable amount.

Fixed Assets

Fixed assets are stated at cost less an allowance for depreciation.

Depreciation has been provided for on a straight line basis so as to charge the cost of fixed assets over their estimated economic lives assessed as follows:

Buildings	20	year
Plant and equipment	4-20	years
Motor vehicles and trucks	5	years
Office furniture and fittings	5-6	years
Technical & computer equipment	2-5	years

Pipelines and associated production facilities are depreciated over their economic life on a basis consistent with the recognition of revenue over their economic life or straight line basis whichever is more appropriate. Thus, the economic life of such equipment is dependent on future production and remaining reserves, and therefore varies from project to project. Where such costs are not considered to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Investments in Short Term Securities

Investments in short term securities are recorded at cost, or at cost adjusted for premium or discount amortisation. Premiums and discounts are capitalised and amortised from the date of purchase to maturity.

Investments in Listed Resource Companies

Investments in listed resource companies are recorded at the lower of cost and net realisable value.

Investments in Wholly Owned Subsidiaries

In the parent company's financial statements, investments in wholly owned subsidiaries are recorded at cost or directors valuation, except where, in the opinion of the directors, there is a permanent diminution in value, in which case they are written down to their estimated recoverable amount.

Where wholly owned subsidiary companies have sold petroleum or coal 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.

Foreign Currencies

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities, including those of integrated foreign operations, are translated at the closing rate, and exchange variations are included in the statement of financial performance as operating items.

Financial Instruments

The group is a party to financial instruments as part of its day to day operating activities. Financial instruments, as defined under the Financial Reporting Standard issued by the Institute of Chartered Accountants of New Zealand, include short term securities and cash deposits, investments in listed resource companies, receivables, creditors and borrowings, certain non current assets and non current liabilities as well as certain off balance sheet instruments entered into in order to manage the fluctuation in oil prices.

Revenues and expenses (including gains and losses) in relation to all financial instruments are recognised in the statement of financial performance. All financial instruments other than off balance sheet instruments are recognised in the statement of financial position.

Statement of Cash Flows

(a) Cash includes cash on hand and at bank, short term deposits, bank bills and government stock less any overdraft.

(b) Operating cash flows represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.

(c) Investing cash flows represents cash flows arising from the acquisition and divestment of investment and productive assets. Productive assets comprise fixed assets and accumulated petroleum and coal expenditure.

(d) Financing cash flows represents cash flows arising from cash transactions affecting the capital structure of the group and cash flows from debt financing activities excluding interest on debt finance which is included in operating cash flows.

Certain cash flows are netted in order to provide more meaningful disclosure.

Taxation

Income tax is recognised on the operating surplus/(deficit) before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

However, the net future income tax benefit relating to timing differences and tax losses is not carried forward as an asset in the statement of financial position unless the benefit is virtually certain of being realised.

Comparative Figures

Where necessary, the amounts for the previous year are reclassified to facilitate comparison.

NOTES TO THE FINANCIAL STATEMENTS (continued)

2. TOTAL REVENUE AND OPERATING SURPLUS/(DEFICIT) BEFORE TAXATION

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Operating surplus/(deficit) before taxation has been determined after:						
(i) **Crediting as income:**						
Other revenue						
Interest received	1,327	286	538	1,127	272	498
Gain on reduction of interest in subsidiary	2,522	-	-	-	-	-
Other (including unrealised exchange gains)	172	33	46	977	-	450
Total revenue	4,021	319	584	2,104	272	948
(ii) **Charging as expenses:**						
Directors' fees	85	65	160	75	65	140
Exchange losses	-	510	377	-	75	377
Fees paid to parent company auditors	21	28	47	21	28	47
Fees paid to parent company auditors for other services	16	2	18	16	(2)	12
Fixed asset depreciation	38	35	66	33	19	50
Operating expenditure	1,597	1,240	2,228	1,386	1,048	2,262
Petroleum and coal exploration expenditure written off / (back)	(18)	790	1,030	-	-	-
Release against investment in associate	-	(1,031)	(1,031)	-	(1,031)	(1,031)
Provision against advances to associate companies	-	-	152	-	-	-
Write back provision against investment in subsidiary (Curdridge)	-	-	-	-	-	(23,190)

3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 31 December 2005 represents a 31.4% (31 December 2004: 27.2%) minority interest in Pike River Coal Company Limited (“PRCC”) and a 40% (31 December 2004: 40%) minority interest in Pafule Pty Limited (“Pafule”).

NOTES TO THE FINANCIAL STATEMENTS (continued)

4 SHAREHOLDERS' EQUITY

		CONSOLIDATED AND PARENT COMPANY					
	Notes	Unaudited 6 months ended 31 Dec 2005 Number of Shares 000s	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 Number of Shares 000s	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 Number of Shares 000s	Audited 12 months ended 30 June 2005 $000
Reported paid in share capital							
Paid in share capital – opening balance		205,372	102,835	133,964	58,564	133,964	58,564
Shares issued		13,334	11,824	-	-	150	90
Options exercised	(i)	1	-	173	104	71,258	42,738
		218,707	114,659	134,137	58,668	205,372	101,392
Partly paid shares issued	(ii)	1,260	13	-	-	-	-
Options issued		-	-	-	1,443	-	1,443
Treasury share elimination		(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)
Paid in share capital-closing balance		214,102	111,878	128,272	57,317	199,507	100,041
Bonus Options issued	(i)	107,201	-	-	-	-	-

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Paid in share capital	111,878	57,317	100,041	111,875	57,317	100,041
Reserves						
Retained (deficit) reserves brought forward	(16,393)	(13,838)	(13,838)	(39,522)	(61,802)	(61,802)
Net surplus/(deficit) for the period	2,255	(1,406)	(2,555)	573	70	22,280
Retained (deficit) reserves carried forward	(14,138)	(15,244)	(16,393)	(38,949)	(61,732)	(39,522)
Share revaluation reserve:						
Opening and closing balance	-	-	-	6,465	6,465	6,465
Asset revaluation reserve:						
Opening and closing balance	2,891	2,891	2,891	-	-	-
Total shareholders' equity	100,631	44,964	86,539	79,391	2,049	66,984

Notes:

(i) As at 31 December 2005 the Company had on issue 107,050,986 ("2008 options"). Each option entitles the holder to subscribe for one share in the capital of the Company at an exercise price of NZ$1.50 exercisable anytime up to 30 June 2008. 273 "2008 options" and 750 "2005 options" were exercised in the half year ended 31 December 2005. The Company issued 150,000 options as part of an incentive programme, which are unlisted and exercisable at $1.26.

(i) During the half year ended 31 December 2005 the Company issued 1,260,000 partly paid shares, paid to NZ$0.01 each, to participants in the ESOP. Apart from this issue all shares issued are fully paid. Each fully paid share issued is entitled to one vote. Partly paid shares are entitled to a vote in proportion to the amount paid up.

NOTES TO THE FINANCIAL STATEMENTS (continued)

5. SHORT TERM SECURITIES AND CASH DEPOSITS

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Bank		1,941	1,750	13,553	9,134	3,117	12,160
Cash on deposit	(i)	31,475	10,055	36,110	13,820	8,729	36,109
		33,416	11,805	49,663	22,954	11,846	48,269

Note:

(i) Included in cash on deposit are US dollar balances of US$13,067 (NZ$18,927) (31 December 2004:US$2,373,000 (NZ$3,269,000))

6. RECEIVABLES

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Current receivables							
Interest receivable		204	-	-	-	-	-
Option conversion receivable		-	-	1,343	-	-	1,343
Trade receivables	(i)	677	258	396	414	158	208
		881	258	1,739	414	158	1,551

Note:

(i) Included in trade receivables at 31 December 2005 was US$Nil (NZ$Nil) (2004: US$98,000 (NZ$181,000)) which was not hedged.

7. INVENTORIES

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Field operation consumables	116	150	116	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

8. INVESTMENTS IN LISTED RESOURCE COMPANIES

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Non-current						
Shares in a listed company (Pan Pacific Petroleum NL)						
Book value	4,583	1,463	1,463	3,661	541	541
Market value	4,818	2,117	2,117	3,609	578	578

9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Investment in subsidiaries	-	-	-	71,189	72,671	72,661
Provision for diminution	-	-	-	(10,601)	(10,601)	(10,601)
	-	-	-	60,588	62,070	62,060
Investment in associate						
Unlisted shares (NZOG Nominees)	2,280	3,750	2,603	2,280	3,750	2,603

Notes:

(i) A list of the parent company's subsidiary and associate companies is set out in note 22.

(ii) Equity accounting for the associate company has not been applied as the amounts involved are not material.

10. FIXED ASSETS

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Other fixed assets							
Cost	(i)	398	281	327	262	206	248
Accumulated depreciation		(82)	(29)	(50)	(82)	(19)	(50)
Book value of fixed assets		316	252	277	180	187	198

Note:

(i) Other fixed assets includes land of $65,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

11. JOINT VENTURES

NZOG group interests held at 31 December 2005, in significant unincorporated joint ventures established to explore, develop and produce petroleum products and the contributions made by those joint ventures to group results are as follows:

		CONSOLIDATED			PARENT COMPANY		
		Percentage Interest			Percentage Interest		
		Unaudited 6 months ended 31 Dec 2005	Unaudited 6 months ended 31 Dec 2004	Audited 12 months ended 30 June 2005	Unaudited 6 months ended 31 Dec 2005	Unaudited 6 months ended 31 Dec 2004	Audited 12 months ended 30 June 2005
Licence (Joint Ventures)	**Note**	%	%	%	%	%	%
PML 38146 (Kupe)		15.0	15.0	15.0	-	-	-
PMP 38158 (Tui)	(i)	12.5	-	-	-	-	-
PEP 38460 (Tui)	(i)	-	12.5	12.5	-	-	-
PEP 38478 (Mangatoa)		-	50.0	-	-	-	-
PEP 38484 (West Kupe)	(ii)	100.0	50.0	50.0	-	-	-
PEP 38483 (West Maui Deep Block)		18.9	15.0	18.9	-	-	-
PEP 38483 (HSSB)	(i)	20.0	-	-	-	-	-
PEP 38718 (Tuihu)		-	28.6	28.6	-	-	-
PEP 38729 (Felix)		75.0	75.0	75.0	-	-	-
PEP 38768 (Pukearuhe)		-	56.0	-	-	-	-

The financial statements of all joint ventures are unaudited.

Notes:

(i) PMP 38158 was granted by the Ministry of Economic Development on 31 October 2005 over the Tui Oil Fields (and satellite prospects) contained in the former PEP 38460. A condition of approval was the relinquishment of the remainder of the former PEP 38460 exploration acreage apart from the Hector South Sub Block ("HSSB") which was appended to PEP 38483.

(ii) The PEP 38484 permit interest increased during the half year due to the withdrawal of the other participant.

The contribution made by joint ventures to group results was to increase revenues by nil (31 December 2004: $Nil) and reduce expenses by $18,241 (31 December 2004: $790,257 expense).

Included in the assets and liabilities of the NZOG group are the following joint venture assets and liabilities.

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Current Assets						
Short term securities and cash deposits	1,873	1,486	1,395	-	-	-
Trade receivables	53	53	75	-	-	-
Field operation consumables	116	150	116	-	-	-
	2,042	1,689	1,586	-	-	-
Non-Current Assets						
Fixed assets	-	-	-	-	-	-
Petroleum interests	34,641	20,938	23,091	-	-	-
	34,641	20,938	23,091	-	-	-
Total Assets	36,683	22,627	24,677	-	-	-
Current Liabilities						
Creditors and borrowings	1,552	746	567	-	-	-
Total Liabilities	1,552	746	567	-	-	-
Net Assets held in Joint Ventures	35,131	21,881	24,110	-	-	-

NOTES TO THE FINANCIAL STATEMENTS (continued)

12. PETROLEUM AND COAL INTERESTS

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Carrying Value						
Petroleum and Coal development, exploration and evaluation expenditure						
Accumulated expenditure brought forward	37,994	29,308	29,308	-	-	-
Expenditure capitalised during the period:						
Development expenditure	17,076	3,169	8,622	-	-	-
Petroleum exploration	151	1,650	1,150	-	-	-
Release to operating surplus	(58)	(843)	(1,086)	-	-	-
Movement in capitalised expenditure for the period	17,169	3,976	8,686	-	-	-
Total accumulated expenditure carried forward	55,163	33,284	37,994	-	-	-

Notes:

(i) Petroleum and coal exploration, evaluation and development costs are carried forward in respect of the Kupe project (PML38146), Tui project (PMP38158) and Pike River (MP 41453). The actual amount recoverable is dependent upon a number of factors which are uncertain or tentative at balance date and which may be subject to change. Such factors include the level of petroleum or coal reserves, estimates of future product sale prices, operating costs and capital expenditures and of tax losses and legislative changes. The directors believe that accumulated petroleum and coal exploration, evaluation and development expenditure is recoverable through these projects proceeding to development.

(ii) Expenditure in relation to petroleum exploration permits is net of amounts written off.

13. OTHER NON-CURRENT ASSETS

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Deferred tax asset	(i)	-	5	-	-	-	-
Taxation receivable / (payable)		-	14	(10)	-	-	-
Security deposits	(ii)	20,314	66	65	-	-	-
		20,314	85	55	-	-	-

Note:

(i) The future income tax benefit arises solely from consolidation of Pafule.

(ii) Security deposits are held by government agencies subject to licensed work programme commitments being met and a security deposit of $18million (US$ 12.5million) which has been lodged in relation to the Tui development project.

NOTES TO THE FINANCIAL STATEMENTS (continued)

14. CREDITORS

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Trade creditors	3,769	1,506	2,891	1,133	325	794

15. PROVISIONS AND NON-CURRENT LIABILITIES

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Current							
Employee leave entitlements	(i)	12	93	12	12	-	12
Other		90	91	91	90	90	91
		102	184	103	102	90	103
Non-Current							
Advances from wholly owned subsidiary companies to parent		-	-	-	9,451	76,088	47,341
		-	-	-	9,451	76,088	47,341

Note:

(i) Movements in employee provision

Opening balance	93	296	296	-	-	-
(Release) to operating surplus	(81)	(203)	(284)	-	-	-
Closing balance	12	93	12	-	-	-

The provision for employee entitlements relate to employee benefits such as accrued annual leave, long service leave, retirement and redundancy provisions.

(ii) Inter-group advances between wholly owned subsidiaries and the parent are on interest free terms and no repayment terms have been arranged. As at 31 December 2005, the balance of inter-group advances was $9.5 million (2004: $76 million).

16. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The group operates United States dollar bank accounts for oil sales and to meet US denominated expenditures.

Credit Risk

Financial instruments which potentially subject the group to credit risk consist primarily of short term securities and cash deposits, investments in listed resource companies, trade receivables and certain non current assets.

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 above financial instruments. However, the maximum amount of loss, which may possibly be realised, is the carrying value of the financial instrument.

Fair Values

The carrying amount of short-term securities and cash deposits, trade receivables and creditors approximates fair value due to the short maturity of these instruments. Adequate provision is held in respect of trade receivables.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Estimated fair values, based upon net realisable value, of the group's remaining financial instruments at 31 December 2005 are as follows:

	Carrying Value Unaudited 6 months ended 31 Dec 2005 $000	Fair Value Unaudited 6 months ended 31 Dec 2005 $000	Carrying Value Unaudited 6 months ended 31 Dec 2004 $000	Fair Value Unaudited 6 months ended 31 Dec 2004 $000	Carrying Value Audited 12 months ended 30 June 2005 $000	Fair Value Audited 12 months ended 30 June 2005 $000
Consolidated						
Investments in resource company						
(Pan Pacific Petroleum NL)	4,583	4,818	1,463	2,117	1,463	2,268
Security deposits	20,314	20,314	65	65	65	65
Parent Company						
Investments in resource company						
(Pan Pacific Petroleum NL)	3,661	3,609	541	578	541	619

Interest Rate Risk

The interest rate spread and the contractual maturity dates of the group's short-term securities and cash deposits are as follows:

	Maturity Date	Interest Rate
Short Term Securities and Cash Deposits:		
New Zealand dollar bank and cash on deposit	At call	7.25%
United States dollar bank and cash on deposit	At call	1.2%
Security deposits	June 2006	4.0% to 7.55%

All other financial instruments are non-interest bearing.

17. TAXATION

(a) New Zealand Oil & Gas Limited and wholly owned subsidiaries

New Zealand Oil & Gas Limited and wholly owned subsidiaries have tax losses carried forward at 31 December 2005 of $55,045,000 (31 December 2004: $52,091,000). The net future income tax benefit of these tax losses is not carried forward as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

(b) Consolidated and Parent

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
(i) Income tax expense							
Operating surplus / (deficit) before taxation		2,282	(2,351)	(2,463)	573	(961)	22,281
Income tax expense / (benefit) at 33%		753	(776)	(813)	189	(317)	7,352
Adjusted for tax effect of:							
Permanent differences - New Zealand		(747)	795	836	(189)	317	(7,352)
		6	19	23	-	-	-
Consolidated from Pafule:							
Permanent differences		-	-	45			
Difference in foreign tax rates		-	(2)	(2)			
Income tax expense on operating surplus before tax items		-	17	66			
Tax losses/(gains) not brought to account		(16)	86	37			
Income tax expense/(benefit) attributable to operating surplus/(deficit)		(10)	103	103			

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) Future income tax benefit (consolidated from Pafule)							
Opening balance		-	100	100			
Movement during the period		-	(100)	(100)			
Closing balance		-	-	-			
(iii) Taxation losses not taken into account							
Taxation losses not recognised							
New Zealand	(i),(ii)	55,045	52,091	54,850	21,842	21,437	22,398

Notes:

(i) The value of taxation losses not brought to account at 31 December 2005 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.

(ii) The taxation losses above include timing differences of $6,659,675 (31 December 2004: $4,128,821) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

18. RELATED PARTY DISCLOSURES

Related parties of the company include those entities identified in note 11 and 22 as subsidiaries, joint ventures and associates.

Material transactions with related parties during the year are set out in Notes 2, 6, 9, 11, 12, 19 and 22. There are no material balances due to or from related parties at 31 December 2005, except for, in regards to the parent company, inter-company borrowings with wholly owned subsidiary companies.

There are no additional related parties with whom material transactions have taken place.

19. EMPLOYEE SHARE OWNERSHIP PLAN

(a) Description of Employee Share Ownership Plan (ESOP)

NZOG Nominees Limited ('Nominees') held the following securities in the Company in its capacity of plan company and trustee of the Company's ESOP.

		NZOG SHARES			2005 OPTIONS		
	Note	**Unaudited 6 months ended 31 Dec 2005 Number 000**	**Unaudited 6 months ended 31 Dec 2004 Number 000**	**Audited 12 months ended 30 June 2005 Number 000**	**Unaudited 6 months ended 31 Dec 2005 Number 000**	**Unaudited 6 months ended 31 Dec 2004 Number 000**	**Audited 12 months ended 30 June 2005 Number 000**
Allocated to employees							
Options to purchase		4,128	4,793	4,403	-	-	-
Savings shares		665	722	721	-	-	-
Partly paid shares	(i)	1,260	-	-	-	-	-
Unallocated		1,143	1,086	1,086	-	1,355	-
		7,196	6,601	6,210	-	1,355	-
As a percentage of total reported capital		3.4%	5.2%	3.1%	-	-	-

Notes:

(i) During the half year 1,260,000 shares were allocated to employees, partly paid to $0.01

(ii) Other than the above option allocations, no NZOG securities held in the ESOP are subject to put or call options, nor are the NZOG securities used as security for borrowings by the NZOG group or any other person.

(iii) The NZOG board's remuneration committee (which comprises only non-executive directors) nominates employees to participate in the ESOP and determines the numbers and exercise prices of options to be granted. Exercise prices are set at no less than market value at date of granting, to which an escalation factor generally applies.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(b) Funding

NZOG group holds redeemable preference shares in Nominees, at a cost of $2,280,100, (book value $2,280,100) which can be redeemed upon the Company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

Funding by employees to acquire saving shares amounts to $297,595 (31 December 2004: $297,595)

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
Investment and advances						
Investment in shares	2,280	3,750	2,603	2,280	3,750	2,603

(c) Control

Nominees is an associate company of NZOG. Voting rights in respect of NZOG shares vest in Nominees as to unallocated shares and to the respective employees in the case of allocated shares. The shareholders of Nominees hold the right to appoint the directors of Nominees.

(d) Financial Position and Performance of the ESOP

	CONSOLIDATED MARKET VALUES			CONSOLIDATED COST		
	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000	Unaudited 6 months ended 31 Dec 2005 $000	Unaudited 6 months ended 31 Dec 2004 $000	Audited 12 months ended 30 June 2005 $000
(i) Financial Position						
Equity						
Share capital				2,280	3,750	2,603
Retained deficit				(231)	(1,181)	(416)
				2,049	2,569	2,187
Assets						
Securities:						
- allocated	4,238	5,382	5,047	1,525	2,139	1,902
- unallocated	1,029	2,256	1,288	665	484	404
	5,267	7,638	6,335	2,190	2,623	2,306
Less provision for diminution in value	-	-	-	(153)	(153)	(153)
	5,267	7,638	6,335	2,037	2,470	2,153
Bank	12	109	47	12	109	47
Debtors	-	1	-	-	1	-
	5,279	7,748	6,382	2049	2,580	2,200
Less Liabilities						
Creditors	-	(11)	(13)	-	(11)	(13)
	-	(11)	(13)	-	(11)	(13)
Net Assets	5,279	7,737	6,369	2,049	2,569	2,187

NOTES TO THE FINANCIAL STATEMENTS (Continued)

(ii) Financial Performance

Interest income	3	-	7
Accounting and legal fees	27	3	17
Gain on sale of securities	(184)	(135)	(908)

The ESOP financial statements are unaudited at the date of these NZOG financial statements.

20. GEOGRAPHICAL SEGMENTS

The Company operates in the petroleum and coal industry in New Zealand.

21. COMMITMENTS

As at 31 December 2005 the group had certain capital expenditure commitments in relation to the participation in the Tui Oil development subsequent to the formal investment decision in November 2005. The total capital expenditure budgeted for the project is US$203 million (NZOG share US$26 million) to be completed during the second quarter 2007.

Exploration Commitments

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

(b) The group committed to drill two exploration wells in PMP 38158 as a mining permit condition. The budgeted cost for these wells is US$26.4 million (NZOG share US$3.3million).

(c) Security deposits of $65,000 (31 December 2004 $65,000) are held subject to licensed work programme commitments being met.

22. SUBSIDIARY COMPANIES AND ASSOCIATES

Wholly Owned Subsidiary Companies

ANZ Resources Pty Limited [see note (i)]
Australia and New Zealand Petroleum Limited
Delta Petroleum Limited
Kupe Royalties Limited
National Petroleum Limited
Nephrite Enterprises Limited
NZOG Services Limited
NZOG 38483 Limited
NZOG 38484 Limited
Oil Holdings Limited
Petroleum Equities Limited
Petroleum Resources Limited
Resource Equities Limited
Stewart Petroleum Company Limited

		GROUP INTEREST	
	Note	2005 %	2004 %
Partly Owned Subsidiaries			
Pafule Pty Limited	(i)	60	60
Pike River Coal Company Limited	(ii)	68.6	72
Associate Companies			
NZOG Nominees Limited	(ii)	50	50

Notes:

(i) Australian registered company.

(ii) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry. The associate company is an investment company. Partly owned subsidiary Pafule is an administration services company. Pike River Coal Company is involved in the coal mining industry.

NOTES TO THE FINANCIAL STATEMENTS (continued)

23. EARNINGS PER SHARE

	31 December 2005 cents	31 December 2004 cents	30 June 2005 cents
Basic earnings per share	1.08	(1.90)	(1.90)
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	208,409,682	134,018,703	135,071,958
Diluted earnings per share	1.75	0.18	0.20
Weighted average number of ordinary shares and options outstanding during the period used in the calculation of diluted earnings per share	223,576,699	206,129,084	206,184,152

24. INTERNATIONAL FINANCIAL REPORTING STANDARDS

New Zealand International Financial Reporting Standards ("NZIFRS") apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities will also have the option of voluntarily early adopting NZIFRS for periods beginning on or after 1 January 2005.

Transition to NZIFRS will affect a number of the group's accounting policies and procedures. In particular, deferred taxation, financial instruments and accounting for joint ventures are some of the significant areas that are likely to be affected by the changes.

The company will work through a process to identify the accounting policies, disclosures, presentation and classification differences that would affect the manner in which transactions or events are presented. This process entails assessing the impacts of changes in financial reporting standards on NZOG's financial reporting and other related activities, then designing and implementing processes to deliver financial reporting on an NZIFRS compliant basis, as well as dealing with any related business impacts.

The board of directors has not quantified the effects of the differences. Accordingly, there can be no assurances that the consolidated financial performance and financial position as disclosed in this financial report would not be significantly different if determined in accordance with NZIFRS.

Once NZOG has completed transitions to NZIFRS, it will also be in compliance with International Reporting Standards (IFRS).

AUDITOR'S REVIEW REPORT

KPMG

To the shareholders of New Zealand Oil & Gas Limited

We have completed a review on the financial statements contained on pages 8 to 26 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance and financial position of New Zealand Oil & Gas Limited and its subsidiary companies (the "Group") as at 31 December 2005.

Directors' responsibilities

The Directors of New Zealand Oil & Gas Limited are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Group as at 31 December 2005 and the results of its operations for the six month period ended on that date.

Reviewers' 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

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

Review opinion

Based on our review, nothing has come to our attention that causes us to believe that the financial statements contained on pages 8 to 26 do not give a true and fair view of the financial position of the Group as at 31 December 2005 and the results of its operations for the six month period ended on that date.

Our review was completed on 27 February 2006 and our opinion is expressed as at that date.

KPMG

Wellington

COMPANY PROFILE

New Zealand Oil & Gas Limited is an independent company listed on the New Zealand and Australian stock exchanges. Most of New Zealand Oil & Gas Limited's 11,000 shareholders are individual investors.

New Zealand Oil & Gas Limited is actively advancing several oil and gas development and exploration assets in the Taranaki Basin, New Zealand and a coking coal deposit in Westland, South Island of New Zealand.

CORPORATE DIRECTORY

Directors

R A Radford *ACA NZ*
Executive Chairman and Managing Director

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

P G Foley *BCA, LLB*

S J Rawson *BSc, MSc*

D R Scoffham *MA, MSc*

Management

R A Radford
Chief Executive

G A Ward *BBS, CA (NZ)*
General Manager

J P Salo *PHD*
Senior Manager Geology

S K Klemann *PHD*
Manager Geophysics

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Auditors

KPMG
KPMG Centre
135 Victoria Street, Wellington
New Zealand

Shareholder Information

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

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For company information contact the company:
Toll free 0800 000 594 (within New Zealand)

Shareholders are encouraged to receive company announcements directly via the internet at the website below.

NZ OIL & GAS

www.nzog.net

E-mail enquiries: enquiries@nzog.net

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