

**NEW ZEALAND OIL & GAS LIMITED**

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

**Results for announcement to the market**

Reporting Period	12 months to 30 June 2009
Previous Reporting Period	6 months to 31 December 2008
Comparative Reporting Period	12 months to 30 June 2008

	Amount (NZ\$ 000s)		Increase / (decrease)
	12 months to 30 June 2009	12 months to 30 June 2008	%
Revenue from ordinary activities	138,889	234,109	(41%)
Surplus / (deficit) from ordinary activities after tax attributable to security holders	53,206	97,243	(45%)
Net profit / (loss) attributable to security holders	53,206	97,243	(45%)
	NZ\$	NZ\$	%
Net Tangible Assets per share	1.28	1.12	14%

Interim/Final Dividend	Amount per security	Imputed amount per security
Final Dividend	5 cents	Fully imputed

Record Date	18 September 2009
Dividend Payment Date	2 October 2009

Comments:	<p>Accompanying this announcement are the company's audited financial statements, for the year ended 30 June 2009, that have been prepared in accordance with generally accepted accounting practice and give a true and fair view of the matters to which the statements relate.</p> <p>These financial statements provide the balance of information required in accordance with Listing Rule 10.4.2, Appendix 1.</p> <p>The attached financial statements do not include the dividend declared with this notice.</p> <p><b>Dividend Reinvestment Plan</b></p> <p>On the 29 July 2009 The Board of New Zealand Oil &amp; Gas Ltd announced the establishment of a Dividend Reinvestment Plan.</p> <p>Under this Plan, shareholders resident in New Zealand or Australia can choose to invest all or part of their future dividends in taking up additional NZOG Shares, instead of receiving cash.</p>
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The Plan provides a convenient way for a NZOG shareholder to reinvest dividends in Shares, without incurring brokerage charges. In addition, the Board has decided that, until determined otherwise, new Shares issued under the Plan will be offered at a discount. The number of Shares will be calculated at a 2.5% discount to the weighted average sale price for Shares sold on each of the first five business days immediately following the dividend record date.

Participation in the Plan is optional and if a shareholder takes no action they will continue receiving dividends in cash (by cheque or direct credit to a bank account).

For the Terms and Conditions of the Plan refer to the New Zealand Oil & Gas Limited website: [www.nzog.com](http://www.nzog.com)

**Audited Financial Statements**

Refer to accompanying Appendix 1

# **New Zealand Oil & Gas Limited Financial statements for the year ended 30 June 2009**

The Board of Directors of New Zealand Oil & Gas Limited authorised these financial statements presented on pages 1 to 43 for issue on 25 August 2009.

For and on behalf of the Board.



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RA Radford  
Director

25 August 2009



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PG Foley  
Director

25 August 2009

**New Zealand Oil & Gas Limited**  
**Statement of Financial Performance**  
**For the year ended 30 June 2009**

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

**Attributable to:**

Equity holders of Parent	<u>53,206</u>	<u>97,243</u>
	<u>53,206</u>	<u>97,243</u>

**Earnings per share attributable to shareholders:**

	Notes	Cents	Cents
Basic earnings per share	33	13.7	36.7
Diluted earnings per share	33	13.7	24.1

**Net Tangible Asset Backing per share**

Cents	Cents
128	112

The above statement of financial performance should be read in conjunction with the accompanying notes on pages 6 to 43.

**New Zealand Oil & Gas Limited**  
**Statement of Financial Position**  
**As at 30 June 2009**

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

The above statement of financial position should be read in conjunction with the accompanying notes on pages 6 to 43.

**New Zealand Oil & Gas Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2009**

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

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 6 to 43.

**New Zealand Oil & Gas Limited**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2009**  
(continued)

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

The above statement of changes in equity should be read in conjunction with the accompanying notes on pages 6 to 43.

**New Zealand Oil & Gas Limited**  
**Cash Flow Statement**  
**For the year ended 30 June 2009**

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

The above cash flow statement should be read in conjunction with the accompanying notes on pages 6 to 43.

## 1 General information

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

The financial statements presented herewith as at and for the year ended 30 June 2009 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 25 August 2009.

## 2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated entity consisting of New Zealand Oil & Gas Limited and its subsidiaries.

### (A) Basis of preparation

#### *Statement of compliance*

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

#### *Basis of measurement*

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available-for-sale assets.

#### *Functional and presentation currency*

These financial statements are presented in New Zealand dollars (NZD or \$), which is the Company's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

#### *Use of estimates and judgements*

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

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

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

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to note 17 and 18)

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate. (Refer to note 25)

The key assumptions concerning the recoverability of deferred tax assets is the certainty of entity's in the Group to generate future taxable income. (Refer to note 23)

### (B) Basis of consolidation

#### *(i) Subsidiaries*

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

## **2 Summary of significant accounting policies (continued)**

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

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have revalued the investment in those companies to an amount not exceeding their underlying net assets.

### *(ii) Associates*

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. (refer to note 15).

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

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

### *(iii) Oil and gas joint ventures*

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

## **(C) Foreign currency translation**

### *(i) Functional and presentation currency*

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

### *(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of financial performance, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

### *(iii) Group companies*

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

## 2 Summary of significant accounting policies (continued)

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a component of equity.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the statement of financial performance as part of the gain or loss on sale.

### (D) Financial Instruments

#### (i) *Non-derivative financial instruments*

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through statement of financial performance, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

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

#### *Investments in equity securities*

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

#### *Trade and other receivables*

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

#### *Interest-bearing borrowings*

Interest-bearing borrowings are classified as other liabilities and are subsequently measured at amortised cost using the effective interest rate method.

#### *Trade and other payables*

Trade and other payables are stated at cost.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank, short term deposits and deposits at call with an original maturity of three months or less. Cash also includes the Group's share of cash held as participant of joint ventures and cash held in a pre-completion reserve under the Group's interest bearing borrowing arrangements.

#### *Other*

Accounting for finance income and expense is discussed in note 2(Q).

## 2 Summary of significant accounting policies (continued)

### (ii) *Derivative financial instruments*

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

#### *Trading instruments*

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

#### *Cash flow hedges*

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

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to the statement of financial performance in the same period that the hedged item affects the financial performance.

#### *Economic hedges*

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

#### *Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately in the statement of financial performance.

### (iii) *Share capital*

#### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### *Repurchase of share capital (treasury shares)*

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

### (E) *Exploration and evaluation assets*

Exploration and evaluation expenditure capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which: (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Exploration and evaluation expenditure are impaired in the statement of financial performance under the successful efforts method of accounting, in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made. An area of interest is defined by the Group, as being a permit area, where rights of tenure are current.

## **2 Summary of significant accounting policies (continued)**

Upon technical feasibility and commercial viability of an area of interest, Exploration and Evaluation assets for the area of interest is transferred to Development assets. No amortisation is provided for in respect of exploration and evaluation assets.

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

### **(F) Oil and gas assets**

#### *Development*

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and the cost of development wells or mines.

No amortisation is provided, in respect of development assets, until they are reclassified as Production assets.

#### *Production assets*

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves to meet current commitments under sales contracts, are amortised using the units of production method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment.

#### *Subsequent costs*

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

### **(G) Property, plant and equipment**

#### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### **(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statement of financial performance as incurred.

#### **(iii) Depreciation**

Depreciation is recognised in the statement of financial performance on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

- Leasehold improvements	13 years
- Motor vehicles	5 years
- Furniture and fittings	4-10 years
- Computer hardware & technical equipment	2-6 years

## 2 Summary of significant accounting policies (continued)

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### (H) Intangible assets

#### (i) Goodwill

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

#### *Acquisitions of minority interests*

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

#### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

#### (ii) Computer software

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

### (I) Inventories

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

### (J) Impairment

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

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

#### (i) Impairment of equity instruments.

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

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

#### (ii) Impairment of receivables

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

#### (iii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. For exploration and evaluation assets the method for reviewing for impairment is described in 2J(iv).

## **2 Summary of significant accounting policies (continued)**

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the statement of financial performance. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **(iv) Exploration and evaluation assets**

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

Any impairment loss is recognised as an expense in the statement of financial performance in the period.

### **(K) Goods and Services Tax (GST)**

The statement of financial performance has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### **(L) Employee benefits**

#### *(i) Wages and salaries, annual leave and sick leave*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

#### *(ii) Share-based payments*

The issue date fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

### **(M) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

#### *(i) Make good provision*

A make good provision is recognised in respect of the Group's obligation in relation to its leased buildings.

## **2 Summary of significant accounting policies (continued)**

### **(ii) Restoration and rehabilitation provision**

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

### **(N) Borrowing costs**

Borrowing costs relating to assets under development up to the date that substantially all activities necessary to prepare assets under development for intended use are complete, are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

### **(O) Revenue recognition**

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

#### *(i) Sales of goods*

Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer.

#### *(ii) Royalty income*

Royalty income is recognised on the date the Company's right to receive payment is established.

### **(P) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Payments made under operating leases are recognised in the statement of financial performance on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

### **(Q) Finance income and expenses**

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

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in the statement of financial performance. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the statement of financial performance using the effective interest method.

### **(R) Income tax**

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

## **2 Summary of significant accounting policies (continued)**

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

### **(S) Royalties expense**

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

### **(T) Earnings per share**

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

### **(U) Net tangible asset backing per share**

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

### **(V) Segment reporting**

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

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

### **(W) Determination of fair values**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

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

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

## **2 Summary of significant accounting policies (continued)**

The fair value of employee partly paid shares is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), life of the instruments, expected dividends, and the risk-free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

### **(X) Standards, amendments and interpretations to existing standards that are not yet effective**

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but which the Group has not early adopted.

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

- NZ IFRS 2, Share Based Payments - Vesting Conditions and Cancellations (Amended) (effective from annual periods beginning on or after 1 January 2009)
- NZ IFRS 2, Share Based Payments - Group cash-settled share based payment transactions (effective from annual periods beginning on or after 1 January 2010)
- NZ IFRS 3, Business Combinations (revised) - (effective from annual periods beginning on or after 1 July 2009).
- NZ IFRS 4, Insurance Contracts (amended) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IFRS 8, Operating Segments - (effective from annual periods beginning on or after 1 January 2009)
- NZ IAS 1, Presentation of Financial Statements (revised) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 23, Borrowing costs (revised) - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 27, Consolidated and Separate Financial Statements (amended) - (effective from annual periods beginning on or after 1 July 2009).
- NZ IAS 32 and NZ IAS 1, Financial Instruments Presentation (amended) and Presentation of Financial Statements (amended) - Puttable Financial Instruments and obligations arising on liquidation - (effective from annual periods beginning on or after 1 January 2009).
- NZ IFRS 7, Financial Instruments - Improved disclosure about financial instruments - (effective from annual periods beginning on or after 1 January 2009).
- NZ IAS 39, Financial Instruments - Eligible Hedged items (Amended) - (effective from annual periods beginning on or after 1 July 2009).
- NZ IAS 39, Financial Instruments - Embedded derivatives (Amended) - (effective from annual periods beginning on or after 1 July 2009).

## **3 Segment information**

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

#### 4 Income

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

#### 5 Operating costs

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

#### 6 Other expenses

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

## 6 Other expenses (continued)

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

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

## 7 Net finance costs/(income)

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

## 8 Royalties expense

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

## 9 Income tax expense

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

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

On 21 May 2007, the Taxation (KiwiSaver and Company Tax Rate Amendments) Act 2007 was given royal assent meaning that for the 2008/09 income tax year the New Zealand company tax rate changed from 33% to 30%. The effect of the reduction in the tax rate on the measurement of deferred tax assets and liabilities has been shown in the table above, in 2008.

## 10 Imputation credits

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

## 11 Cash and cash equivalents

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

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

### (a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.10% and 2.80% (2008: 2.00% and 8.65%).

### (b) Restriction of use

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

In respect of the Tui project finance facility, the Company has agreed that deposits of US\$7.6 million (NZ dollar equivalent \$11.8 million) are held in escrow by Commonwealth Bank of Australia based on the level of the Letter of Credit Facility outstanding to the bank.

## 12 Receivables and prepayments

	Group		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade receivables	9,936	31,375	3	11
Interest receivable	294	140	218	42
Advances to related parties	-	-	180,617	37,758
Share option proceeds receivable	-	14,163	-	14,163
Prepayments	486	9,892	49	19
Other	136	120	136	122
Total receivables and prepayments	<u>10,852</u>	<u>55,690</u>	<u>181,023</u>	<u>52,115</u>

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

## 13 Inventories

	Group		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Oil stock, at cost	605	366	-	-
Field operation consumables, at cost	32	32	-	-
Total inventories	<u>637</u>	<u>398</u>	<u>-</u>	<u>-</u>

## 14 Investments in subsidiaries

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

Name of entity	Country of incorporation	Classes of shares	Equity holding	
			2009 %	2008 %
ANZ Resources Pty Limited	Australia	Ordinary	100	100
Australia and New Zealand Petroleum Limited	New Zealand	Ordinary	100	100
Kupe Royalties Limited	New Zealand	Ordinary	100	100
National Petroleum Limited	New Zealand	Ordinary	100	100
Nephrite Enterprises Limited	New Zealand	Ordinary	100	100
NZOG 38483 Limited	New Zealand	Ordinary	100	100
NZOG 38494 Limited (previously NZOG 38484 Limited)	New Zealand	Ordinary	100	100
NZOG Deepwater Limited	New Zealand	Ordinary	100	100
NZOG Development Limited	New Zealand	Ordinary	100	100
NZOG Energy Limited	New Zealand	Ordinary	100	100
NZOG Offshore Limited	New Zealand	Ordinary	100	100
NZOG 38259 Limited (previously NZOG Resources Limited)	New Zealand	Ordinary	100	100
NZOG Services Limited	New Zealand	Ordinary	100	100
NZOG Taranaki Limited	New Zealand	Ordinary	100	100
Oil Holdings Limited	New Zealand	Ordinary	100	100
Petroleum Resources Limited	New Zealand	Ordinary	100	100
Petroleum Equities Limited	New Zealand	Ordinary	100	100
Resource Equities Limited	New Zealand	Ordinary	100	100
Stewart Petroleum Company Limited	New Zealand	Ordinary	100	100
New Zealand Oil & Gas employee benefit trust	New Zealand	Trustee	-	-

All subsidiary companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry.

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

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

## 15 Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

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

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

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

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

The Group's holding in PRCL comprises 102.6 million ordinary shares and 17.3 million options that are exercisable on or before 24 April 2011 at \$1.25. The market value of the Group's investment in PRCL as at 30 June 2009 was \$125.8 million.

Group At	
2009 \$'000	2008 \$'000
68,670	2,280
(3,914)	(351)
(2,773)	-
11,778	17,506
3,300	-
(2,280)	-
-	49,235
<u>74,781</u>	<u>68,670</u>

### (b) Movements in carrying amounts

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

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

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

## 16 Interests in oil and gas joint ventures

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

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

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

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

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

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

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

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

\*\* Prior to amortisation of production assets.

## 17 Exploration and evaluation assets

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

## 18 Oil and gas assets

### (a) Development assets

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

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

### (b) Production assets

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

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

Total oil and gas assets	<u>242,281</u>	<u>204,499</u>	<u>-</u>	<u>-</u>
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During the year there has been a change in estimated future expenditure on the Tui production asset held by the company with the joint venture partners' decision in October 2008 to defer the proposed additional Tui 4H development well.

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

## 19 Property, plant and equipment

GROUP	Land & Leasehold improvement \$'000	Fixtures and fittings \$'000	Motor vehicles \$'000	Computer Hardware & Technical Equipment \$'000	Total \$'000
<b>At 1 July 2007</b>					
Cost	89	114	18	434	655
Accumulated depreciation	(1)	(28)	(6)	(226)	(261)
Net book value	<u>88</u>	<u>86</u>	<u>12</u>	<u>208</u>	<u>394</u>
<b>Year ended 30 June 2008</b>					
Opening net book value	88	86	12	208	394
Additions	121	42	-	79	242
Deconsolidation of subsidiary assets	(65)	(19)	(12)	(135)	(231)
Depreciation charge	(12)	(21)	-	(66)	(99)
Closing net book value	<u>132</u>	<u>88</u>	<u>-</u>	<u>86</u>	<u>306</u>
<b>At 30 June 2008</b>					
Cost	145	132	-	248	525
Accumulated depreciation	(13)	(44)	-	(162)	(219)
Net book value	<u>132</u>	<u>88</u>	<u>-</u>	<u>86</u>	<u>306</u>
<b>Year ended 30 June 2009</b>					
Opening net book value	132	88	-	86	306
Additions	-	2	-	40	42
Depreciation charge	(12)	(14)	-	(77)	(103)
Closing net book value	<u>120</u>	<u>76</u>	<u>-</u>	<u>49</u>	<u>245</u>
<b>At 30 June 2009</b>					
Cost	145	134	-	288	567
Accumulated depreciation	(25)	(58)	-	(239)	(322)
Net book value	<u>120</u>	<u>76</u>	<u>-</u>	<u>49</u>	<u>245</u>

**19 Property, plant and equipment (continued)**

PARENT	Leasehold improvement \$'000	Fixtures and fittings \$'000	Computer Hardware & Technical Equipment \$'000	Total \$'000
<b>At 1 July 2007</b>				
Cost	24	90	172	286
Accumulated depreciation	<u>(1)</u>	<u>(23)</u>	<u>(100)</u>	<u>(124)</u>
Net book amount	<u>23</u>	<u>67</u>	<u>72</u>	<u>162</u>
<b>Year ended 30 June 2008</b>				
Opening net book value	23	67	72	162
Additions	121	43	80	244
Disposals	-	(1)	-	(1)
Depreciation charge	<u>(12)</u>	<u>(21)</u>	<u>(66)</u>	<u>(99)</u>
Closing net book value	<u>132</u>	<u>88</u>	<u>86</u>	<u>306</u>
<b>At 30 June 2008</b>				
Cost	145	132	248	525
Accumulated depreciation	<u>(13)</u>	<u>(44)</u>	<u>(162)</u>	<u>(219)</u>
Net book value	<u>132</u>	<u>88</u>	<u>86</u>	<u>306</u>
<b>Year ended 30 June 2009</b>				
Opening net book value	132	88	86	306
Additions	-	2	40	42
Depreciation charge	<u>(12)</u>	<u>(14)</u>	<u>(77)</u>	<u>(103)</u>
Closing net book value	<u>120</u>	<u>76</u>	<u>49</u>	<u>245</u>
<b>At 30 June 2009</b>				
Cost	145	134	288	567
Accumulated depreciation	<u>(25)</u>	<u>(58)</u>	<u>(239)</u>	<u>(322)</u>
Net book value	<u>120</u>	<u>76</u>	<u>49</u>	<u>245</u>

**20 Intangible assets**

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

## 21 Other financial assets

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

### (a) Pike River Coal Limited

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

### (b) Pan Pacific Petroleum NL

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

### (c) Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to license work program commitments being met.

## 22 Payables

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

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

## 23 Deferred tax assets and liabilities

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

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

## 24 Borrowings

	Group		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
<b>Secured</b>				
Bank loans	-	63,958	-	-
Total non-current borrowings	<u>-</u>	<u>63,958</u>	<u>-</u>	<u>-</u>

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

### (a) Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui oil field. At 30 June 2009 the Letter of Credit facility was US\$7.6 million (30 June 2008: US\$12.5 million). The Letter of Credit facility expires on 31 December 2015.

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

## 24 Borrowings (continued)

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

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

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

## 25 Restoration and rehabilitation provision

	Group		Parent	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Restoration and rehabilitation provision	<u>8,144</u>	<u>11,322</u>	-	-
Total non-current provisions	<u>8,144</u>	<u>11,322</u>	-	-

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

### Movements in provisions

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

## 26 Contributed equity of the Group and Parent

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

### (b) Movements in ordinary share capital:

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

### (c) Ordinary shares

Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

### (d) Partly paid shares

Information relating to the employee share ownership plan (ESOP), including details of shares issued under the scheme, is set out in note 31.

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

### (e) Options

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

### (f) Treasury shares elimination

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

## 27 Reserves

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

### Nature and purpose of reserves

#### (i) Available-for-sale financial asset reserve

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

#### (ii) Foreign currency translation reserve

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve, as described in note 2(C). The reserve is recognised in profit and loss when the net investment is disposed of.

#### (iii) Share revaluation reserve

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

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

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

## **29 Financial risk management**

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

### **(a) Market risk**

#### *(i) Foreign exchange risk*

The Group is exposed to foreign currency risk on cash and cash equivalents, oil sales, capital commitments and borrowings that are denominated in a currency other than the Company's functional currency, New Zealand dollars (\$), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 11, 12, 22 and 23.

#### *(ii) Commodity price risk*

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

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

The Group's main interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

### **(b) Credit risk**

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

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

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

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

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

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

## 29 Financial risk management (continued)

### (c) Liquidity risk

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

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

<b>GROUP</b>	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractu al cash flows
<b>30 June 2009</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	29,353	-	-	-	-	29,353
Total non-derivative liabilities	<u>29,353</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,353</u>
Commodity price contracts Net (outflow)/inflow	-	-	-	-	-	-
<b>GROUP</b>	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractu al cash flows
<b>30 June 2008</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Secured borrowings	-	-	19,019	44,939	-	63,958
Payables	67,773	-	-	-	-	67,773
Total non-derivative liabilities	<u>67,773</u>	<u>-</u>	<u>19,019</u>	<u>44,939</u>	<u>-</u>	<u>131,731</u>
Commodity price contracts Net (outflow)/inflow	(2,701)	(1,576)	(1,998)	-	-	(6,275)
<b>PARENT</b>	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractu al cash flows
<b>30 June 2009</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	1,168	-	-	-	-	1,168
Total non-derivative liabilities	<u>1,168</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,168</u>
<b>PARENT</b>	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractu al cash flows
<b>30 June 2008</b>	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Payables	1,067	-	-	-	-	1,067
Total non-derivative liabilities	<u>1,067</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,067</u>

### (d) Capital management

The Group manages its capital through the use of cash flow and corporate forecasting models to determine its future capital requirements, and maintains a flexible capital structure which allows access to debt and equity markets to draw upon and repay capital as required. In July 2009 the company established a Dividend Reinvestment Plan which will apply to dividends declared after 29 July 2009. The Group has a stable capital base and significant cash reserves from which it can pursue its growth aspirations.

## **29 Financial risk management (continued)**

### **(e) Sensitivity analysis**

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity pricing, equity securities and currency risks. The Group's exposure to these risks is described in note 29(a).

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

An increase in the value of the New Zealand dollar against the United States dollar by 5% at balance date would be a decrease of \$6.2 million in Group profit before tax and a decrease by \$1.4 million in the foreign currency translation reserve in equity (2008: \$0.7 million decrease on profit before tax and \$2.6 million increase in the foreign currency translation reserve).

An increase in the value of a barrel of oil at balance date by 10% would be an increase of approximately \$0.6 million in Group profit before tax for the year ended 30 June 2009 (2008: \$2.4 million increase).

An increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by \$1.7 million (2008: \$2.1 million increase), based on maintaining current cash balances.

An increase in the value of equity securities held by the Group at balance date, which are categorised as available for sale financial assets, by 5% would increase the available for sale financial asset reserve in equity by \$2.4 million.

### **(f) Recognised assets and liabilities**

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

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

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

## 29 Financial risk management (continued)

### (g) Financial instruments by category

#### GROUP

	Held for trading \$'000	Available for sale financial asset \$'000	Loans and receivables \$'000	Held to maturity investments \$'000	Other amortised cost \$'000	Total fair value and carrying value \$'000
<b>At 30 June 2009</b>						
<b>Assets</b>						
Cash and cash equivalents	-	-	174,753	-	-	174,753
Receivables	-	-	10,366	-	-	10,366
Derivative financial instruments	190	-	-	-	-	190
Other financial assets	-	48,829	43	-	-	48,872
	<u>190</u>	<u>48,829</u>	<u>185,162</u>	<u>-</u>	<u>-</u>	<u>234,181</u>
<b>Liabilities</b>						
Payables	-	-	-	-	29,353	29,353
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,353</u>	<u>29,353</u>
<b>At 30 June 2008</b>						
<b>Assets</b>						
Cash and cash equivalents	-	-	256,461	-	-	256,461
Receivables	-	-	45,798	-	-	45,798
Other financial assets	-	-	43	3,500	-	3,543
	<u>-</u>	<u>-</u>	<u>302,302</u>	<u>3,500</u>	<u>-</u>	<u>305,802</u>
<b>Liabilities</b>						
Payables	-	-	-	-	67,773	67,773
Derivative financial instruments	6,146	-	-	-	-	6,146
Borrowings	-	-	-	-	63,958	63,958
	<u>6,146</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>131,731</u>	<u>137,877</u>

## 29 Financial risk management (continued)

### (g) Financial instruments by category(continued)

#### PARENT

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

## 30 Related party transactions

### (a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

### (b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: R A Radford; R F Meyer; P G Foley; A T N Knight; S J Rawson; D J Salisbury and D R Scoffham.

### (c) Key management and personnel compensation

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

	Short-term benefits \$'000	Post-employ- ment benefits \$'000	Other long-term benefits \$'000	Termination benefits \$'000	Share-based payments \$'000	Total \$'000
<b>2009</b>						
Management	1,395	-	-	176	63	1,634
Directors	<u>1,024</u>	-	-	-	<u>167</u>	<u>1,191</u>
	<u>2,419</u>	-	-	<u>176</u>	<u>230</u>	<u>2,825</u>
<b>2008</b>						
Management	851	-	-	-	-	851
Directors	<u>914</u>	-	-	-	-	<u>914</u>
	<u>1,765</u>	-	-	-	-	<u>1,765</u>

### **30 Related party transactions (continued)**

#### **(d) Other transactions with key management personnel or entities related to them**

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 31.

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

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

A director, Mr P G Foley, is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison provides legal services to the Group on normal commercial terms and conditions.

#### **(e) Subsidiaries, Associates and Joint Ventures**

Related parties of the Company include those entities identified in note 14, 15 and 16 as subsidiaries, joint ventures and associates.

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

During the year ended 30 June 2009 the convertible notes the Group held with associate company Pike River Coal Limited (PRCL), converted into shares on 31 December 2008. Before the conversion date the Group sold 0.2 million convertible notes and received interest income from the convertible notes of \$0.2 million. The remaining 3.3 million notes converted at a conversion price of \$0.91. After the issue of the new shares the Group's interest in PRCL reduced from 31% to 30%.

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

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

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

#### **(f) Directors and specified executives**

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

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

### **31 Share-based payments**

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non-executive Director) of the Company to whom an offer to participate is made by the Executive Appointments and Remuneration Committee. The Executive Appointments and Remuneration Committee, in its complete discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

#### *1. Restriction periods*

Each partly paid share is issued on terms that require an Escrow Period to pass before the holder can complete payment for, and thereafter transfer, the shares. This has usually been 2 years. There is also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

#### *2. Issue price*

The issue price of each partly paid share is set at the time the offer is made to the participant and is set at the lesser of:

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

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

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

#### *3. Rights*

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

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



### 31 Share-based payments (continued)

The model inputs for partly paid shares issued during the year ended 30 June 2009, in addition to the issue price, issue date and final date as summarised in the above table, include:

- (a) shares are paid to \$0.01 on issue
- (b) partly paid shares have a five year life and are exercisable after two years from the issue date
- (c) market price on issue date: \$1.24 - \$1.28
- (d) expected price volatility of the company's shares: 40%
- (e) expected gross dividend per share: 5.6% - 5.8%
- (f) risk free interest rate on the issue date: 4.6% - 7.2%

The expected price volatility is based on the historic volatility.

### 32 Commitments and contingent liabilities

#### (a) Capital expenditure commitments

As at 30 June 2009 the Group had certain capital expenditure commitments in relation to the participation in the Kupe development. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.

#### (b) Exploration expenditure commitments

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

#### (c) Operating leases and commitments

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

	<b>Group</b>		<b>Parent</b>	
	<b>2009</b>	2008	<b>2009</b>	2008
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Within one year	<b>189</b>	189	<b>189</b>	189
Later than one year and not later than five years	<b>172</b>	361	<b>172</b>	361
Later than five years	<b>-</b>	-	<b>-</b>	-
	<b><u>361</u></b>	<u>550</u>	<b><u>361</u></b>	<u>550</u>

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

#### Production commitments

The Company is committed to certain operational commitments, in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the FPSO lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by NZOG to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US\$36.4 million.

#### (d) Contingent liabilities

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

### 33 Earnings per share

	Group	
	2009 Cents	2008 Cents
<b>(a) Basic earnings per share</b>		
Basic earnings per share	13.7	36.7
<b>(b) Diluted earnings per share</b>		
Diluted earnings per share	13.7	24.1

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

	Group	
	2009 \$'000	2008 \$'000
Profit for the year	53,206	97,243
Profit attributed to minority interest	-	-
Profit attributable to the ordinary equity holders of the Company	53,206	97,243

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

	Group	
	2009 Number 000s	2008 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	387,903	265,321
<i>Adjustments for calculation of diluted earnings per share:</i>		
Options	-	138,684
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	387,903	404,005

### 34 Events subsequent to balance date

#### Acquisition of permit interest in Hoki

On 9 July 2009 the Group announced that it had agreed to acquire a 10% stake in Petroleum Exploration Permit 38401.

PEP 38401 contains the Hoki oil prospect, which is scheduled to be drilled later in 2009. The Group's financial commitment including the drilling of the exploration well will be approximately \$10 million.

#### Kupe project facility

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

#### Declared dividend

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



## Audit report

### **To the shareholders of New Zealand Oil & Gas Limited**

We have audited the financial statements on pages 1 to 43. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2009. This information is stated in accordance with the accounting policies set out on pages 6 to 15.

#### **Directors' responsibilities**

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

#### **Auditors' responsibilities**

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

#### **Basis of opinion**

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

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

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

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



### **Unqualified opinion**

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 1 to 43:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2009 and the results of their operations and cash flows for the year ended on that date.

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

A handwritten signature in blue ink that reads 'KPMG', with a horizontal line drawn underneath it.

Wellington