



28 February 2007

## **NZOG SIX MONTHLY RESULT TO 31 DECEMBER 2006**

New Zealand Oil & Gas Limited announces its result for the 6 months ended 31 December 2006.

Total revenues for the half year were \$2.6 million (31 December 2005: \$4.0 million) and include interest income of \$1.7 million (31 December 2005: \$1.3 million) and a foreign exchange gain of \$0.9 million (31 December 2005: \$0.2 million).

The six monthly result is a deficit of \$2.9 million, after minority interests (31 December 2005: surplus \$2.3 million) and reflects a \$2.5m provision for the full cost of drilling the Tieke-1 exploration well in December 2006. The main target of the well was not successful and the costs have been fully provided against, even though the well remains suspended pending a decision on possible re-entry for drilling to a deeper target.

During the reporting period, NZOG raised \$17 million of additional capital through a share/options placement in November 2006. Since 31 December 2006 a further \$25 million was raised from a rights offer and associated placement of securities.

Mr Tony Radford (Executive Chairman) said "All three of NZOG's developments are being actively progressed, with \$41 million having been invested during the half year. The first development to come into production will be Tui, with first oil due by June 2007 in just over 3 months time. This income stream will also utilise a significant portion of the company's accumulated tax losses."

*References to "NZOG" or "the Company" means New Zealand Oil & Gas Limited and its subsidiaries.*

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NZOG stock symbols: NZX shares - NZO options - NZOOD  
ASX shares - NZO options - NZOO

news release

**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	6 months to 31 December 2006
Previous Reporting Period	12 months to 30 June 2006
Comparative Reporting Period	6 months to 31 December 2005

	Amount (NZ\$ 000s)		Increase / (decrease)
	6 months to 31 December 2006	6 months to 31 December 2005	%
Revenue from ordinary activities	2,588	4,021	(36)
(Deficit) / surplus from ordinary activities after tax attributable to security holders	(2,860)	2,255	(227)
Net profit / (loss) attributable to security holders	(2,860)	2,255	(227)
	NZ\$	NZ\$	%
Net Tangible Assets per share	0.66	0.53	25

Interim/Final Dividend	Amount per security	Imputed amount per security
	N/A	N/A

Record Date	N/A
Dividend Payment Date	N/A

Comments:	Refer to accompanying Appendix 1
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Accompanying this announcement are the company's Financial Statements 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. The auditors have reviewed the accounts and their review report will be released when the interim report and financial statements are approved for issue.

These Financial Statements provide the balance of information required in accordance with Listing Rule 10.4.2, Appendix 1.

# NEW ZEALAND OIL & GAS LIMITED

## STATEMENT OF FINANCIAL PERFORMANCE

For the six months ended 31 December 2006

		<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
Total revenue	2(i)	2,588	4,021	7,538
<b>Operating (deficit)/surplus before taxation</b>		<b>(2,800)</b>	<b>2,282</b>	<b>2,521</b>
Taxation (expense)/benefit	11	(107)	10	(112)
Operating (deficit)/surplus after taxation		(2,907)	2,292	2,409
<b>Net (deficit)/surplus for the period</b>		<b>(2,907)</b>	<b>2,292</b>	<b>2,409</b>
Net (deficit)/surplus comprises:				
Parent interest		(2,860)	2,255	2,302
Minority interest	3	(47)	37	107
		<b>(2,907)</b>	<b>2,292</b>	<b>2,409</b>

The notes on pages 5 to 14 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF MOVEMENTS IN EQUITY

For the six months ended 31 December 2006

		<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Equity at beginning of period</b>		<b>139,013</b>	<b>90,916</b>	<b>90,916</b>
<i>Total recognised revenues and expenses</i>				
Net (deficit)/surplus for the period		(2,860)	2,255	2,302
Movement in minority interest during the period		(47)	37	107
		(2,907)	2,292	2,409
<i>Contribution from owners:</i>				
Shares issued in subsidiary company to minority interest		-	8,156	33,854
Shares issued		17,236	11,833	11,833
Share options exercised	4(i)	4	1	1
		17,240	19,990	45,688
<b>Equity at end of period</b>		<b>153,346</b>	<b>113,198</b>	<b>139,013</b>

The notes on pages 5 to 14 form part of and are to be read in conjunction with these financial statements.

# NEW ZEALAND OIL & GAS LIMITED

## STATEMENT OF FINANCIAL POSITION

As at 31 December 2006

	Note	Group Unaudited 6 months ended 31 Dec 2006 \$'000	Group Unaudited 6 months ended 31 Dec 2005 \$'000	Group Audited 12 months ended 30 Jun 2006 \$'000
<b>Current Assets</b>				
Short term securities and cash deposits		35,205	33,416	41,712
Receivables	5	1,767	881	21,264
Deferred expenses	5	2,138	-	1,543
Inventories		72	116	116
<b>Total Current Assets</b>		<b>39,182</b>	<b>34,413</b>	<b>64,635</b>
<b>Non-Current Assets</b>				
Prepayments	5	3,935	-	3,007
Deferred expenses	5	3,302	-	1,611
Investment in listed resource company	6	4,583	4,583	4,583
Investment in associate company	7	2,280	2,280	2,280
Fixed assets		507	316	521
Petroleum and coal interests	9	128,963	55,163	87,510
Security deposits		4,909	20,314	2,622
<b>Total Non-Current Assets</b>		<b>148,479</b>	<b>82,656</b>	<b>102,134</b>
<b>Total Assets</b>		<b>187,661</b>	<b>117,069</b>	<b>166,769</b>
<b>Current Liabilities</b>				
Creditors and accruals		14,086	3,769	9,788
Provisions	10	313	102	221
<b>Total Current Liabilities</b>		<b>14,399</b>	<b>3,871</b>	<b>10,009</b>
<b>Non-Current Liabilities</b>				
Borrowings		18,947	-	16,982
Provisions	10	740	-	643
Deferred taxation	11	229	-	122
<b>Total Non-Current Liabilities</b>		<b>19,916</b>	<b>-</b>	<b>17,747</b>
<b>Total Liabilities</b>		<b>34,315</b>	<b>3,871</b>	<b>27,756</b>
<b>NET ASSETS</b>		<b>153,346</b>	<b>113,198</b>	<b>139,013</b>
<b>EQUITY</b>				
Attributable to Shareholders of the company	4	115,058	100,631	100,678
Attributable to Minority Shareholders of the group	3	38,288	12,567	38,335
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>153,346</b>	<b>113,198</b>	<b>139,013</b>

The notes on pages 5 to 14 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors

**R F Meyer**  
Director

**R A Radford**  
Director

Date: \_\_\_\_\_

Date: \_\_\_\_\_

**STATEMENT OF CASH FLOWS**

For the six months ended 31 December 2006

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Cash Flows From Operating Activities</b>			
<i>Cash was received from:</i>			
Interest received	1,662	1,120	2,309
Other income	24	-	-
	<u>1,686</u>	<u>1,120</u>	<u>2,309</u>
<i>Cash was paid for:</i>			
Interest paid	(8)	-	(28)
Other payments to suppliers and employees	(2,272)	(1,570)	(5,015)
	<u>(2,280)</u>	<u>(1,570)</u>	<u>(5,043)</u>
<b>Net cash flows from operating activities</b>	<u>(594)</u>	<u>(450)</u>	<u>(2,734)</u>
<b>Cash Flows From Investing Activities</b>			
<i>Cash was received from:</i>			
Sale of investment in associate company	-	323	323
<i>Cash was paid for:</i>			
Petroleum and coal expenditures	(41,199)	(16,680)	(43,415)
Purchase of other fixed assets	(88)	(77)	(351)
Purchase of shares in listed resource company	-	(3,120)	(3,120)
Security deposit	(2,287)	(20,249)	(2,558)
	<u>(43,574)</u>	<u>(40,126)</u>	<u>(49,444)</u>
<b>Net cash flows from investing activities</b>	<u>(43,574)</u>	<u>(39,803)</u>	<u>(49,121)</u>
<b>Cash Flows From Financing Activities</b>			
<i>Cash was received from:</i>			
Issue of shares in partly owned subsidiary	(i) 19,400	10,677	16,970
Issue of shares from exercise of options	4	1,325	1,325
Issue of shares	17,232	11,833	11,833
Proceeds from borrowings	7,060	-	16,982
Other	-	(1)	-
	<u>43,696</u>	<u>23,834</u>	<u>47,110</u>
<i>Cash was paid for:</i>			
Repayment of borrowings	(2,404)	-	-
Deferred expenditure costs	(1,740)	-	(5,910)
	<u>(4,144)</u>	<u>-</u>	<u>(5,910)</u>
<b>Net cash flows from financing activities</b>	<u>39,552</u>	<u>23,834</u>	<u>41,200</u>
<b>Net (decrease)/increase in cash</b>	<u>(4,616)</u>	<u>(16,419)</u>	<u>(10,655)</u>
Cash at beginning of period	41,712	49,663	49,663
Effect of exchange rate changes on cash	(1,891)	172	2,704
<b>CASH AT END OF PERIOD</b>	<u>35,205</u>	<u>33,416</u>	<u>41,712</u>
<b>Made up as follows:</b>			
Short term securities and cash deposits	35,205	33,416	41,712

**Note:**

(i) Pike River Coal Limited ("PRCL")

The notes on pages 5 to 14 form part of and are to be read in conjunction with these financial statements.

**STATEMENT OF CASH FLOWS (continued)**

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

	Group Unaudited 6 months ended 31 Dec 2006 \$'000	Group Unaudited 6 months ended 31 Dec 2005 \$'000	Group Audited 12 months ended 30 Jun 2006 \$'000
<b>Net (deficit)/surplus after taxation</b>	(2,860)	2,255	2,302
<i>Adjust for non-cash items in operating (deficit)/surplus:</i>			
Gain in reduction of interest in subsidiary	-	(2,522)	(2,522)
Depreciation	103	38	106
Deferred tax	107	-	122
Provision for income tax	-	(10)	-
Write-off/(back) of exploration, development, petroleum and coal expenditure	2,552	(18)	797
Movement in minority interest	(47)	37	107
	<u>2,715</u>	<u>(2,475)</u>	<u>(1,390)</u>
<i>Changes in assets and liabilities:</i>			
Decrease/(increase) in debtors	2,206	(517)	(1,721)
(Decrease)/increase in creditors	(642)	459	467
(Increase)/decrease in provisions	(1,213)	-	312
<i>Items included in other cash flow categories:</i>			
Exchange losses/(gains)	(800)	(172)	(2,704)
	<u>(449)</u>	<u>(230)</u>	<u>(3,646)</u>
<b>Net cash flows from operating activities</b>	<u>(594)</u>	<u>(450)</u>	<u>(2,734)</u>

The notes on pages 5 to 14 form part of and are to be read in conjunction with these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

### 1. STATEMENT OF ACCOUNTING POLICIES

The consolidated financial statements for New Zealand Oil & Gas Limited are comprised of the results of New Zealand Oil & Gas Limited ("the company"), its subsidiaries from the date of acquisition and its share of investments in associates ("the group"). These financial statements have been prepared in compliance with the Financial Reporting Act 1993.

The unaudited financial statements for the six months to 31 December 2006 have been prepared in accordance with FRS 24 Interim Financial Statements and should be read in conjunction with the audited financial statements for the year ended 30 June 2006.

Uniform accounting policies have been applied throughout the group on a consistent basis with the policies published in the unaudited interim financial statements for the period to 31 December 2005 and the audited financial statements for the year ended 30 June 2006.

#### SIGNIFICANT ACCOUNTING POLICY OF THE GROUP:

##### *Production, Development, Exploration and Evaluation Expenditure*

Expenditure incurred on petroleum and coal 'areas of interest' is accounted for using the successful efforts method. An area of interest is defined by the group as a licence or permit area. Exploration and evaluation expenditure (together with certain inter-group advances relative to these expenditures), is written off in the statement of financial performance under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable reserves or resources, as applicable, or when the decision to abandon an area of interest is made.

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

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

##### *(i) Production Interests*

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

##### *(ii) Development Interests*

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

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

##### *(iii) Exploration and Evaluation interests*

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

- (a) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or
- (b) exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves or resources, as applicable, and active and significant operations in, or in relation to, these areas are continuing.

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

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

#### CHANGES IN ACCOUNTING POLICIES

There have been no changes to accounting policies from the unaudited interim financial statements for the period to 31 December 2005 and the audited financial statements for the year ended 30 June 2006.

## NOTES TO THE FINANCIAL STATEMENTS

## 2. TOTAL REVENUE AND OPERATING EXPENSES

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
Operating (deficit)/surplus before taxation has been determined after:			
<b>(i) Revenue:</b>			
Interest received	1,696	1,327	2,309
Gain on reduction of interest in subsidiary	-	2,522	2,522
Other (including unrealised and realised exchange gains)	892	172	2,707
	<u>2,588</u>	<u>4,021</u>	<u>7,538</u>
<b>(ii) Operating Expenses</b>			
Directors' fees	265	85	265
Unrealised and realised exchange losses	-	-	3
Fixed asset depreciation	103	38	106
Interest paid	8	-	39
Operating expenditure	2,460	1,634	3,807
Petroleum and coal exploration expenditure written off/(back) or down to valuation	2,552	(18)	797
	<u>5,388</u>	<u>1,739</u>	<u>5,017</u>

## 3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 31 December 2006 is based on a 39% (31 December 2005: 31.4%) minority interest in Pike River Coal Limited ('PRCL').

The gain on reduction in investment in subsidiary of \$2.5 million arising from introduction of new investors into PRCL was recognised in the 6 months ended 31 December 2005. Whilst there have been further investors in PRCL, the amount of gain is dependent on the value attributed to PRCL in the planned initial Public Offer. Accordingly, no further gain on investments made in PRCL subsequent to 31 December 2005 has been recognised.

Pursuant to an Equity Subscription Agreement between New Zealand Oil & Gas Limited (NZOG), Saurashtra Fuels Private Limited (Saurashtra) and PRCL dated 20 September 2005 (the "Saurashtra ESA"), PRCL received \$14.9 million net of brokerage and underwriting costs on the issue of shares.

Pursuant to an Equity Subscription Agreement between NZOG, Gujarat NRE Coke Limited (Gujarat) and PRCL dated 12 June 2006 (the "Gujarat ESA"), PRCL received \$19.4 million net of commitment fees for an issue of shares.

PRCL is required to issue to shareholders who acquired PRCL shares pursuant to the Saurashtra ESA and Gujarat ESA, for no additional consideration, such number of additional shares as would result in all the shares acquired under these agreements having an issue price equal to the IPO price.

**NOTES TO THE FINANCIAL STATEMENTS**

**4. SHAREHOLDERS' EQUITY**

	Unaudited 6 months ended 31 Dec 2006 Number of Shares '000	Unaudited 6 months ended 31 Dec 2006 \$'000	Unaudited 6 months ended 31 Dec 2005 Number of Shares '000	Unaudited 6 months ended 31 Dec 2005 \$'000	Audited 12 months ended 30 Jun 2006 Number of Shares '000	Audited 12 months ended 30 Jun 2006 \$'000
<b>Reported Paid in Share Capital</b>						
Paid in share capital – opening balance	218,708	114,657	205,372	102,835	205,372	102,835
Shares issued	17,500	17,230	13,334	11,824	13,334	11,821
Options exercised	(i) 3	4	1	-	2	1
	<u>236,211</u>	<u>131,891</u>	<u>218,707</u>	<u>114,659</u>	<u>218,708</u>	<u>114,657</u>
Partly paid shares issued	(ii) 1,885	19	1,260	13	1,636	15
Treasury share elimination	(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)
Paid in share capital-closing balance	<u>232,231</u>	<u>129,116</u>	<u>214,102</u>	<u>111,878</u>	<u>214,376</u>	<u>111,878</u>
Options on issue	(i) 113,067	-	-	-	107,239	-
Rights on issue	(iii) 23,036	-	-	-	-	-
<b>Paid in Share Capital</b>		129,116		111,878		111,878
<b>Retained Earnings</b>						
Retained earnings at beginning of period		(14,089)		(16,393)		(16,393)
Net (deficit)/surplus for the period		(2,860)		2,255		2,302
Retained earnings at end of period		<u>(16,949)</u>		<u>(14,138)</u>		<u>(14,091)</u>
<b>Asset Revaluation Reserve:</b>						
Opening and closing balance		2,891		2,891		2,891
<b>Total Shareholders' Equity</b>		<u>115,058</u>		<u>100,631</u>		<u>100,678</u>

**Notes:**

- (i) As at 31 December 2006 the company had on issue 113,066,980 (31 December 2005: 107,050,986) ("2008 options"). Each option entitles the holder to subscribe for one share in the capital of the company at an exercise price of NZ\$1.50 exercisable anytime up to 30 June 2008. 3,152 "2008 options" were exercised in the half year ended 31 December 2006 (31 December 2005: 273 "2008 options" and 750 "2005 options").
- (ii) During the half year ended 31 December 2006 the company issued 350,000 partly paid shares, paid to NZ\$0.01 each, to participants in the ESOP. Partly paid shares are entitled to a vote in proportion to the amount paid up.
- (iii) On 30 November 2006 a prospectus was registered by the company for a rights issue of shares and options. The entitlement to the issue had a record date of 8 December 2006. 23,036,150 renounceable rights were issued entitling the holder to purchase for \$1 an ordinary share plus one June 2008 option attached to each share issued. The rights expired on 19 January 2007.
- (iv) Apart from the partly paid shares issued, all shares are fully paid. Each fully paid share issued is entitled to one vote.

**NOTES TO THE FINANCIAL STATEMENTS**

5. OTHER CURRENT AND NON-CURRENT ASSETS

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Current</b>			
Trade receivables	1,276	677	1,864
Interest receivable	34	204	-
Taxation receivable	2	-	-
Minority interest equity receivable	-	-	19,400
Deferred expenses	2,138	-	1,543
Other	455	-	-
	<b>3,905</b>	<b>881</b>	<b>22,807</b>
<b>Non-Current</b>			
Prepayments	3,935	-	3,007
Deferred expenses	3,302	-	1,611
	<b>7,237</b>	<b>-</b>	<b>4,618</b>

**Notes:**

- (i) The current portion of deferred expenses relates to IPO costs for PRCL and includes \$45,000 paid to the parent company auditors for services related to the IPO.
- (ii) Non-current deferred expenses include certain costs in relation to financing oil and gas projects.

6. INVESTMENTS IN LISTED RESOURCE COMPANIES

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Non-Current</b>			
Shares and options in Pan Pacific Petroleum NL at book value	4,583	4,583	4,583
Market value based on listed share and option prices	10,404	4,818	9,364

**NOTES TO THE FINANCIAL STATEMENTS**

7. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
Investment in unlisted associate shares - NZOG Nominees Limited	2,280	2,280	2,280

**Wholly Owned Subsidiary Companies** [see note (i)]

ANZ Resources Pty Limited [see note (iii)]	NZOG Energy Limited [see note (ii)]
Australia and New Zealand Petroleum Limited	NZOG Offshore Limited [see note (ii)]
Delta Petroleum Limited [liquidated on 12 September 2006]	NZOG Resources Limited [see note (ii)]
Kupe Royalties Limited	NZOG Services Limited
National Petroleum Limited	NZOG Taranaki Limited [see note (ii)]
Nephrite Enterprises Limited	Oil Holdings Limited
NZOG 38483 Limited	Petroleum Equities Limited
NZOG 38484 Limited	Petroleum Resources Limited
NZOG Deepwater Limited [see note (ii)]	Resource Equities Limited
NZOG Development Limited [see note (ii)]	Stewart Petroleum Company Limited

	<b>Group 31 Dec 2006 %</b>	<b>Group 31 Dec 2005 %</b>	<b>Group 30 Jun 2006 %</b>
<b>Partly Owned Subsidiaries</b>			
Pafule Pty Limited [liquidated on 20 August 2006]	(iii) -	60	60
Pike River Coal Limited	(iv) 61	69	61
<b>Associate Companies</b>			
NZOG Nominees Limited	(v) 50	50	50

**Notes:**

- (i) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry. The associate company is an investment company.
- (ii) Incorporated 21 December 2006.
- (iii) Australian registered company.
- (iv) NZOG's percentage shareholding in PRCL is subject to potential adjustment (refer also to note 3 Minority Interest).
- (v) Equity accounting for associate companies has not been applied as the amounts involved are not material.

**NOTES TO THE FINANCIAL STATEMENTS**

**8. JOINT VENTURES**

Significant unincorporated joint ventures established to explore, develop and produce petroleum.

Licence - Field/Prospect Name	Note	Unaudited	Unaudited	Audited
		6 months ended 31 Dec 2006	6 months ended 31 Dec 2005	12 months ended 30 Jun 2006
		%	%	%
PML 38146 - Kupe		15.0	15.0	15.0
PMP 38158 - Tui	(i)	12.5	12.5	12.5
PEP 38484 - Taitapa	(ii)	-	100.0	100.0
PEP 38483 - Hector		18.9	18.9	18.9
PEP 38483 - Hector South Sub Block	(i)	12.5	12.5	12.5
PEP 38729 - Felix		75.0	75.0	75.0

The financial statements of all joint ventures are unaudited.

**Notes:**

- (i) PMP 38158 was granted by the Ministry of Economic Development on 31 October 2005 over the Tui Oil Fields (and satellite prospects) contained in the former PEP 38460. A condition of approval was the relinquishment of the remainder of the former PEP 38460 exploration acreage apart from the Hector South Sub Block ("HSSB") which was appended to PEP 38483.
- (ii) The permit was relinquished on 14 July 2006.

The contribution made by joint ventures to group results was to increase revenues by \$616,000 (31 December 2005: \$Nil) and increase expenses by \$2,640,000 (31 December 2005: \$18,241 expense).

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

	Group Unaudited 6 months ended 31 Dec 2006	Group Unaudited 6 months ended 31 Dec 2005	Group Audited 12 months ended 30 Jun 2006
	\$'000	\$'000	\$'000
<b>Current Assets</b>			
Short term securities and cash deposits	9,375	1,873	2,574
Trade receivables	732	53	172
Field operation consumables	72	116	116
	<b>10,179</b>	<b>2,042</b>	<b>2,862</b>
<b>Non-Current Assets</b>			
Petroleum interests	64,618	34,641	44,879
	<b>64,618</b>	<b>34,641</b>	<b>44,879</b>
<b>Total Assets</b>	<b>74,797</b>	<b>36,683</b>	<b>47,741</b>
<b>Current Liabilities</b>			
Creditors and borrowings	6,989	1,552	3,213
<b>Total Liabilities</b>	<b>6,989</b>	<b>1,552</b>	<b>3,213</b>
<b>Net Assets Held in Joint Ventures</b>	<b>67,808</b>	<b>35,131</b>	<b>44,528</b>

**NOTES TO THE FINANCIAL STATEMENTS**

**9. PETROLEUM AND COAL INTERESTS**

		<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Carrying Value of Petroleum and Coal Exploration, Evaluation and Development Expenditure</b>	<b>Note</b>			
Accumulated expenditure brought forward		87,510	37,994	37,994
Expenditure capitalised during the half year:				
Petroleum mining licence - Kupe PML38146	(i)	8,340	2,306	6,446
Petroleum mining permit - Tui PMP38158	(i)	12,263	9,149	15,260
Petroleum exploration permits	(ii)	2,030	151	573
Coal mining licence - Pike River MP41453	(iii)	21,363	5,621	28,078
Charged to operating surplus		(2,543)	(58)	(841)
Movement in capitalised expenditure for the period		41,453	17,169	49,516
<b>Total Accumulated Exploration and Evaluation Expenditure Carried Forward</b>		<b>128,963</b>	<b>55,163</b>	<b>87,510</b>

**Notes:**

- (i) Petroleum exploration, evaluation and development costs are carried forward in respect of the Kupe project (PML38146) and Tui project (PMP38158). The actual amount recoverable is dependent upon a number of factors which are uncertain or tentative at balance date and which may be subject to change. Such factors include the level of petroleum reserves, estimates of future petroleum sale prices, operating costs and capital expenditures and of tax losses and legislative changes. The directors believe that accumulated petroleum exploration, evaluation and development expenditure is recoverable through these projects proceeding to development.
- (ii) Expenditure in relation to petroleum exploration permits is net of amounts written off.
- (iii) Coal development expenditure relates to partly owned subsidiary PRCL. The amount carried in the financial statements is supported by financial studies and pricing of equity issued by PRCL to third party investors during the six month ending 31 December 2006. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development.

**10. PROVISIONS AND NON-CURRENT LIABILITIES**

	<b>Group Unaudited 6 months ended 31 Dec 2006 \$'000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 \$'000</b>	<b>Group Audited 12 months ended 30 Jun 2006 \$'000</b>
<b>Current</b>			
Employee leave entitlements	226	12	133
Other	87	90	88
	<b>313</b>	<b>102</b>	<b>221</b>
<b>Non-Current</b>			
Provision for rehabilitation	740	-	643
	<b>740</b>	<b>-</b>	<b>643</b>

**11. TAXATION**

New Zealand Oil & Gas Limited and wholly owned subsidiaries have tax losses carried forward at 31 December 2006 of \$103,824,000 (31 December 2005: \$55,045,000). These tax losses are not included as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

**NOTES TO THE FINANCIAL STATEMENTS**

**12. RELATED PARTY DISCLOSURES**

Related parties of the company include those entities identified in note 7 as subsidiaries and associates.

There are no material balances due to or from related parties at 31 December 2006, except for, in regards to the parent company, inter-company borrowings with wholly owned subsidiary companies.

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

**13. EMPLOYEE SHARE OWNERSHIP PLAN**

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

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

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

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

As at 30 June 2006, the remuneration committee of the board amended the company's ESOP to provide an ability to issue unlisted partly-paid shares to employees, with the first tranche of such securities being 1.5 million shares. In addition, the remuneration committee allocated options over 1 million of the existing shares held by Nominees.

	<b>Group Unaudited 6 months ended 31 Dec 2006 Number 000</b>	<b>Group Unaudited 6 months ended 31 Dec 2005 Number 000</b>	<b>Group Audited 12 months ended 30 Jun 2006 Number 000</b>
<b>NZOG Shares Allocated to Employees</b>			
Options to purchase	5,019	4,128	5,128
Saving shares	665	665	665
Partly paid shares	1,835	1,260	1,535
<b>Unallocated</b>	<b>143</b>	<b>1,143</b>	<b>143</b>
	<b>7,662</b>	<b>7,196</b>	<b>7,471</b>
<b>Pan Pacific Petroleum Shares Allocated to Employees</b>			
Options to purchase	4,754	4,604	4,604
<b>Unallocated</b>	<b>-</b>	<b>1,441</b>	<b>1,441</b>
	<b>4,754</b>	<b>6,045</b>	<b>6,045</b>

**(b) Funding**

NZOG group holds redeemable preference shares in Nominees at cost of \$2,280,000, (book value \$2,280,000) which can be redeemed upon the company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

**(c) Control**

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

**NOTES TO THE FINANCIAL STATEMENTS**

**14. COMMITMENTS AND CONTINGENT LIABILITIES**

**Capital Expenditure Commitments**

As at 31 December 2006 the group had certain capital expenditure commitments in relation to the participation in the Tui, Kupe and Pike River developments.

As at 31 December 2006 PRCL had \$11.3 million (30 June 2006: \$5.6 million, 30 June 2005: Nil) of capital commitments that would be payable if the project was terminated. These commitments relate to work completed and purchases of equipment required for coal mine development

The Tui Formal Investment Decision was made in November 2005 and the total capital expenditure budgeted for the project is US\$225 million (NZOG group share US\$28 million) to be completed by the second quarter 2007. At balance date NZOG group has an outstanding letter of credit of US\$12.5 million with suppliers in relation to the Tui development.

The Kupe Formal Investment Decision was made in June 2006 and the total capital expenditure budgeted for the project is NZ\$980 million (NZOG group share NZ\$147 million) to be completed by the first half 2009. At balance date NZOG group has an outstanding letter of credit of NZ\$10.0 million with suppliers in relation to the Kupe development.

**Contingent Liabilities**

PRCL has provided an indemnity of approximately \$2.2 million under an agreement dated 22 December 2006 in relation to the construction of capital items required to establish a coal transport chain which would be payable if PRCL did not proceed with the purchase of the capital items being constructed.

**Exploration Commitments**

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

(b) Security deposits of \$4,909,000 (31 December 2005: \$20,314,000) are held subject to licensed work programme commitments being met.

**Operating Leases**

PRCL has rental commitments for non-cancellable operating leases totaling \$126,000, with \$43,000 payable within a year and \$83,000 payable within the following four years.

**15. EARNINGS PER SHARE**

	<b>Group Unaudited 6 months ended 31 Dec 2006</b>	<b>Group Unaudited 6 months ended 31 Dec 2005</b>	<b>Group Audited 12 months ended 30 Jun 2006</b>
Basic and diluted earnings cents per share	(1.27)	1.08	1.00
Weighted average number of ordinary shares outstanding during the year used in the calculation	224,560,110	223,576,699	214,227,892

**16. EVENTS SUBSEQUENT TO BALANCE DATE**

There are no significant events occurring subsequent to balance date.

**17. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

In December 2002 the New Zealand Accounting Standards Review Board announced that New Zealand International Financial Reporting Standards ("NZ IFRS") will apply to all New Zealand reporting entities for the periods commencing on or after 1 January 2007. Entities have the option to adopt NZ IFRS for periods beginning on or after 1 January 2005.

NZOG intends to implement NZ IFRS in its annual financial statements for the year ending 30 June 2008.

**Transition Management**

NZOG has commenced a project to:

- assess the key differences in accounting policies under NZ IFRS and current accounting policies;
- determine the impacts on the financial statements from transition; and
- determine and to implement processes to deal with any related business impacts.

# NEW ZEALAND OIL & GAS LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

### *Change in accounting policies on transition to NZ IFRS*

Significant differences identified by NZOG are outlined below. This should not be regarded as a complete list of changes in accounting policies that will result from the transition to NZ IFRS, as some decisions where choices of accounting policies are available have not yet been finalised.

NZOG has not yet completed an exercise to quantify the effects of the differences in accounting policies discussed below, and are therefore currently unable to reliably quantify impacts on the financial statements, which will arise from transitioning to NZ IFRS. It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

NZOG intends to provide further information, including quantifying the impacts of transitioning to NZ IFRS in the group's next annual financial statements for the year ending 30 June 2007.

#### *1. Deferred Tax*

On transition to NZ IFRS deferred tax is provided using the balance sheet approach rather than the income statement approach currently applied. The balance sheet approach provides for all temporary differences between the carrying amount of assets and liabilities for accounting and tax purposes. Deferred tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity or as part of a business combination.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Any deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

#### *2. Financial Instruments*

Accounting for financial instruments under NZ IFRS is significantly different from the company's current policies. Under NZ IFRS all derivative contracts will be carried at fair value on the balance sheet.

If a derivative contract qualifies for cash flow hedge accounting, the effective portion of the fair value movement will be taken to a reserve within equity. All other changes in fair value are recognised immediately in the income statement.

### *Other impacts on transition to NZ IFRS*

NZ IFRS 1 also allows a number of exemptions to assist in the transition to reporting under NZ IFRS. The explanatory comments below include details of the NZ IFRS 1 exemptions adopted.

#### *1. Property, Plant and Equipment*

As permitted by NZ IFRS 1, NZOG intends to deem the previous revalued amount of revalued items of property, plant and equipment as their cost at the date of that revaluation. These assets will not be revalued on an ongoing basis.

#### *2. Remeasurement of Business Combinations*

Under the transitional arrangements of NZ IFRS 1, NZOG has elected to apply NZ IFRS to all business combinations that have occurred since 1 July 2007. This election will result in the business combinations for none of the current subsidiaries being reopened.