STATEMENT OF FINANCIAL PERFORMANCE

For the year ended 30 June 2007

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Total revenue	2(i)	18,039	7,535	18,232	7,668
Operating surplus/(deficit) before taxation		**6,728**	**2,521**	**13,049**	**4,620**
Taxation (expense)/benefit	18	(399)	(112)	-	-
Operating surplus/(deficit) after taxation		6,329	2,409	13,049	4,620
Net surplus/(deficit) for the period		**6,329**	**2,409**	**13,049**	**4,620**
Net surplus/(deficit) comprises:					
Parent interest		6,627	2,302		
Minority interest	3	(298)	107		
		6,329	**2,409**		

STATEMENT OF MOVEMENTS IN EQUITY

For the year ended 30 June 2007

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Equity at beginning of period		**139,013**	**90,916**	**83,438**	**66,984**
Net surplus/(deficit) for the period					
- Attributed to parent		6,627	2,302	13,049	4,620
- Attributed to minority interest		(298)	107	-	-
Total recognised revenues and expenses		6,329	2,409	13,049	4,620
Contribution from owners:					
Shares issued	4	42,574	11,833	42,574	11,833
Share options exercised	4(i)	5	1	5	1
Shares issued in subsidiary company to minority interest	3	(4,612)	33,854	-	-
		37,967	45,688	42,579	11,834
Equity at end of period		**183,309**	**139,013**	**139,066**	**83,438**

The notes on pages 5 to 22 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2007

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current Assets					
Short term securities and cash deposits	5	35,383	41,712	18,485	10,846
Receivables and Prepayments	6	2,678	21,515	1,040	920
Deferred expenses	6	3,999	1,339	-	-
Advances to related parties	9	-	-	49,374	976
Inventories	7	32	116	-	-
Total Current Assets		42,092	64,682	68,899	12,742
Non-Current Assets					
Convertible notes	6	-	-	3,500	-
Deferred expenses	6	3,547	1,815	-	-
Investment in listed resource company	8	-	4,583	-	3,661
Investment in subsidiaries	9	-	-	75,681	66,043
Investment in associate company	9	2,280	2,280	2,280	2,280
Fixed assets	10	486	521	256	215
Petroleum and coal interests	12	212,658	90,266	-	-
Other non-current assets	13	5,536	2,622	-	-
Total Non-Current Assets		224,507	102,087	81,717	72,199
Total Assets		**266,599**	**166,769**	**150,616**	**84,941**
Current Liabilities					
Creditors and accruals	14	26,775	9,788	1,454	1,345
Borrowings	15	39,236	-	10,000	-
Provisions	16	174	221	96	158
Total Current Liabilities		66,185	10,009	11,550	1,503
Non-Current Liabilities					
Borrowings	15	16,261	16,982	-	-
Provisions	16	844	643	-	-
Deferred taxation		-	122	-	-
Total Non-Current Liabilities		**17,105**	**17,747**	**-**	**-**
Total Liabilities		**83,290**	**27,756**	**11,550**	**1,503**
NET ASSETS		**183,309**	**139,013**	**139,066**	**83,438**
EQUITY					
Attributable to Shareholders of the company	4	149,884	100,678	139,066	83,438
Attributable to Minority Shareholders of the group	3	33,425	38,335	-	-
TOTAL SHAREHOLDERS' EQUITY		**183,309**	**139,013**	**139,066**	**83,438**

The notes on pages 5 to 22 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors

P G Foley
Director
29 August 2007

R A Radford
Director
29 August 2007

STATEMENT OF CASH FLOWS

For the year ended 30 June 2007

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Cash Flows From Operating Activities					
Cash was received from:					
Interest received		2,147	2,309	1,092	1,485
Dividends		-	-	-	5,367
Other income		114	-	707	805
		2,261	2,309	1,799	7,657
Cash was paid for:					
Interest paid		(12)	(28)	(12)	(1)
Other payments to suppliers and employees		(6,392)	(5,015)	(4,141)	(3,329)
		(6,404)	(5,043)	(4,153)	(3,330)
Net cash flows from operating activities		(4,143)	(2,734)	(2,354)	4,327
Cash Flows From Investing Activities					
Cash was received from:					
Sale of investment in subsidiary & associate companies		-	323	-	2,189
Sale of investment in listed resource company		12,550	-	9,890	-
Loans repaid by related parties		-	-	-	3,989
		12,550	323	9,890	6,178
Cash was paid for:					
Petroleum and coal expenditures		(110,414)	(43,415)	-	-
Petroleum and coal interest costs		(834)	-	-	-
Purchase of other fixed assets		(171)	(351)	(147)	(89)
Purchase of shares in listed resource company		-	(3,120)	-	(3,120)
Purchase of shares in unlisted resource company		-	-	-	(7,840)
Loan to other entities and wholly owned subsidiaries		-	-	(48,399)	(49,956)
Convertible notes		-	-	(3,500)	-
Security deposits		(2,914)	(2,558)	-	-
		(114,333)	(49,444)	(52,046)	(61,005)
Net cash flows from investing activities		(101,783)	(49,121)	(42,156)	(54,827)
Cash Flows From Financing Activities					
Cash was received from:					
Issue of shares in partly owned subsidiary		19,400	16,970	-	-
Issue of shares from exercise of options		5	1,325	5	1,325
Issue of shares		42,567	11,833	42,567	11,833
Proceeds from borrowings		39,045	16,982	10,000	-
Proceeds from convertible notes		7,500	-	-	-
		108,517	47,110	52,572	13,158
Cash was paid for:					
Repayment of borrowings		(2,404)	-	-	-
Deferred expenditure		(3,738)	(5,910)	-	-
Other		(35)	-	(35)	-
		(6,177)	(5,910)	(35)	-
Net cash flows from financing activities		102,340	41,200	52,537	13,158
Net (decrease)/increase in cash		(3,586)	(10,655)	8,027	(37,342)
Cash at beginning of period		41,712	49,663	10,846	48,269
Effect of exchange rate changes on cash		(2,743)	2,704	(388)	(81)
CASH AT END OF PERIOD		35,383	41,712	18,485	10,846
Made up as follows:					
Short term securities and cash deposits		35,383	41,712	18,485	10,846

The notes on pages 5 to 22 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (continued)

RECONCILIATION OF NET SURPLUS/(DEFICIT) FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Net surplus/(deficit) after taxation	6,627	2,302	13,049	4,620
Adjust for non-cash items in operating surplus/(deficit):				
Gain in reduction of interest in subsidiary	(4,612)	(2,522)	-	-
Gain on sale of investments	(7,966)	-	(6,228)	-
Depreciation	207	106	108	72
Deferred tax	(122)	122	-	-
Write-off/(back) or provision for exploration, petroleum and coal expenditure	3,700	797	-	-
Write-off/(back) or provision investment in subsidaries	-	-	(9,638)	-
Movement in minority interest	(298)	107	-	-
	(9,091)	(1,390)	(15,758)	72
Changes in assets and liabilities:				
Decrease/(increase) in debtors	2,404	(1,721)	(87)	(759)
(Decrease)/increase in creditors	(1,759)	467	80	73
Decrease/(increase) in provisions	193	312	(26)	240
Items included in other cash flow categories:				
Exchange losses/(gains)	2,743	(2,704)	388	81
Items classified as financing activities	(5,260)	-	-	-
	(1,679)	(3,646)	355	(365)
Net cash flows from operating activities	(4,143)	(2,734)	(2,354)	4,327

The notes on pages 5 to 22 form part of and are to be read in conjunction with these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

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

Statutory Base

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

Measurement Base

The measurement base adopted is historical cost adjusted by the revaluation of certain assets. All amounts shown in the financial statements are exclusive of GST.

Changes in Accounting Policies

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

Summarised hereafter are the significant accounting policies adopted.

Basis of Consolidation

(a) Principles of Consolidation

(i) *Subsidiaries*

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

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

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

(ii) *Associate Companies*

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

(iii) *Treasury Capital*

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

(b) Balance on Acquisition

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

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

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

Production, Development, Exploration and Evaluation Expenditure

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

Restoration and Rehabilitation Expenditure

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

Joint Ventures

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

Petroleum or Coal Sales Revenue

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

Unearned Income

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

Administration and Operating Expenses

The group incurs certain administration and operating expenses, which are recovered in the normal course of operations. A proportion of those expenses which relate to the group are reflected in the current year's accumulated production, development and exploration expenditure.

In terms of the group's accounting policy, certain amounts of the accumulated expenditure may be written off each year. As a result, it is not possible to identify those individual administration and operating expenses, which have been charged to the statement of financial performance.

Trade Receivables

Trade receivables are stated at their estimated net realisable value.

Inventories

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

Land

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

Fixed Assets

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

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

Buildings	18	years
Plant and equipment	4-18	years
Motor vehicles and trucks	5	years
Office furniture and fittings	5-8	years
Technical & computer equipment	2-5	years

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

Investments in Short Term Securities

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

Investments in Listed Resource Companies

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

Investments in Wholly Owned Subsidiaries

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

Where wholly owned subsidiary companies have sold petroleum or coal prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have revalued the investment in those companies to an amount not exceeding their underlying net assets.

Financial Guarantees

Where the parent acts as a guarantor for financing agreements entered into by a subsidiary or associate company of the group it considers the guarantee to be an insurance contact. When a financial guarantee exists the company will disclose the guarantee as a contingent liability and only recognise a liability if the payment becomes probable.

Foreign Currencies

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

Financial Instruments

The group is a party to financial instruments as part of its day to day operating activities. Financial instruments include short term securities and cash deposits, investments in listed resource companies, receivables, creditors and borrowings, certain non current assets and non current liabilities as well as certain off balance sheet instruments entered into in order to manage fluctuations in exchange rates, interest rates and oil prices.

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

Statement of Cash Flows

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

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

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

(iv) **Financing cash flows** represents cash flows arising from cash transactions affecting the capital structure of the group and cash flows from debt financing activities excluding interest on debt finance which is included in operating cash flows or investing activities if capitalized to the development of an asset.

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

Taxation

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

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

Comparative Figures

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

2. TOTAL REVENUE AND OPERATING EXPENSES BEFORE TAXATION

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Operating surplus/(deficit) before taxation has been determined after:					
(i) **Revenue:**					
Interest received		2,270	2,309	1,321	1,485
Gain on reduction of interest in subsidiary	3	4,612	2,522	-	-
Dividends		-	-	-	5,367
Gain on sale of investments in listed resource companies (note 8)		7,966	-	6,228	-
Write back of investment in subsidiary	9	-	-	9,638	91
Other (including net unrealised and realised exchange gains)		3,191	2,704	1,045	725
		18,039	7,535	18,232	7,668

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
(ii) **Operating Expenses**				
Directors' fees	443	265	210	210
Fees paid to parent company auditors	100	61	81	48
Fees paid to parent company auditors for other services	229	73	187	61
Fixed asset depreciation	207	106	108	72
Interest paid	64	39	40	1
Operating expenditure	6,568	3,673	4,557	2,656
Petroleum and coal exploration expenditure provided for or written off	3,700	797	-	-
	11,311	5,014	5,183	3,048

3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 30 June 2007 is based on a 46% (2006: 39%) minority interest in partly owned subsidiary Pike River Coal Limited ('PRCL').

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 (ESA) between NZOG, Gujarat NRE Coke Limited (Gujarat) and PRCL dated 12 June 2006, PRCL received $19.4 million net of commitment fees from an issue of shares. These funds were received during August 2006.

During the year PRCL issued shares to Saurashtra and Gujarat pursuant to the Saurashtra ESA and Gujarat ESA, for no additional consideration. The additional issued shares under the ESA agreements were based on the original issue price being equal to the IPO price.

The issue of the PRCL prospectus on 5 June 2007 confirmed the IPO share price and enabled the group to recognise a further gain from the reduction in investment in PRCL of $4.6 million during the period. The gain is in addition to the original amount of $2.5 million recognised in 31 December 2005.

4. SHAREHOLDERS' EQUITY

	Note	Group 2007 Number of Shares '000	Group 2007 $'000	Group 2006 Number of Shares '000	Group 2006 $'000	Parent 2007 Number of Shares '000	Parent 2007 $'000	Parent 2006 Number of Shares '000	Parent 2006 $'000
Reported Paid in Share Capital									
Paid in share capital – opening balance		218,708	114,657	205,372	102,835	218,708	114,657	205,372	102,835
Shares issued		43,174	42,563	13,334	11,821	43,174	42,563	13,334	11,821
Options exercised	(i)	4	5	2	1	4	5	2	1
		261,886	157,225	218,708	114,657	261,886	157,225	218,708	114,657
Partly paid shares issued	(ii)	2,609	26	1,535	15	2,609	26	1,535	15
Treasury share elimination		(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)	(5,865)	(2,794)
Paid in share capital-closing balance		258,630	154,457	214,378	111,878	258,630	154,457	214,378	111,878
Options on issue	(i)	138,988	-	107,239	-	138,988	-	107,239	-
Retained Earnings									
Retained earnings at beginning of period			(14,091)		(16,393)		(34,905)		(39,525)
Net (deficit)/surplus for the period			6,627		2,302		13,049		4,620
Retained earnings at end of period			(7,464)		(14,091)		(21,856)		(34,905)
Share Revaluation Reserve:									
Opening and closing balance			-		-		6,465		6,465
Asset Revaluation Reserve:									
Opening and closing balance			2,891		2,891		-		-
Total Shareholders' Equity			149,884		100,678		139,066		83,438

Notes:

(i) During the year the Company issued 31,750,267 ("2008 options") (2006: 107,088,759). 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. In 2006 the Company issued 150,000 options as part of an incentive program, which are unlisted and exercisable at $1.26.

(ii) During the year the Company issued 1,073,500 partly paid shares (2006: 1,535,000), 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) Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

5. SHORT TERM SECURITIES AND CASH DEPOSITS

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Bank		69	8	69	3
Cash on deposit	(i)	35,314	41,704	18,416	10,843
		35,383	41,712	18,485	10,846

Note:

(i) Included in cash on deposit are US dollar balances of US$10,353,000; NZ$13,463,000 (2006: US$16,345,000; NZ$26,700,000).

6. DEFERRED EXPENSES, RECEIVABLES AND PREPAYMENTS

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current					
Trade receivables and other debtors	(i)	2,100	1,864	530	920
Minority interest equity receivable		-	19,400	-	-
Interest receivable		162	-	229	-
Prepayments		416	251	281	-
Deferred expenses	(ii)	3,999	1,339	-	-
		6,677	22,854	1,040	920
Non-Current					
Deferred expenses	(iii)	3,547	1,815	-	-
Convertible notes	(iv)	-	-	3,500	-
		3,547	1,815	3,500	-

Notes:

(i) Parent Company trade receivables includes $460,000 receivable (2006: $354,000) from subsidiary company PRCL.

(ii) Deferred expenses relate to IPO costs for PRCL and includes $89,000 (2006: $45,000) paid to the parent company auditors for services related to the IPO.

(iii) Deferred costs includes certain costs for financing development projects and includes $80,000 (2006: $24,000) paid to the parent company auditors for services relating to financing.

(iv) Convertible notes held by the Parent were issued by PRCL during the year.

7. INVENTORIES

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Field operation consumables	32	116	-	-

8. INVESTMENTS IN LISTED RESOURCE COMPANIES

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Non-Current				
Shares and options at book value	-	4,583	-	3,661
Market value based on listed share and option prices	-	9,364	-	5,578

All shares held in the listed resource companies were sold during the year.

9. INVESTMENTS IN SUBSIDARY AND ASSOCIATE COMPANIES

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Investment in subsidiaries		-	-	76,644	76,644
Provision for diminution	(vi)	-	-	(963)	(10,601)
Investment in wholly owned subsidiary companies		-	-	75,681	66,043
Intercompany loans and advances	(v)	-	-	49,374	976
Investment in associate company	(iv)	2,280	2,280	2,280	2,280

Wholly Owned Subsidiary Companies [see note (i)]

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

	Note	Group 2007 %	Group 2006 %
Partly Owned Subsidiaries			
Pafule Pty Limited [liquidated on 20 August 2006]	(iii)	-	60
Pike River Coal Limited		54	61
Associate Companies			
NZOG Nominees Limited	(iv)	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) Equity accounting for associate companies has not been applied as the amounts involved are not material.

(v) Intercompany loans and advances includes a short term advance to PRCL of $16,264,000 (2006: $nil) and wholly owned subsidiaries of $33,110,000 (2006: $976,000). The loan to wholly owned subsidiaries is non-interest bearing and repayable on demand.

(vi) During the year the parent company wrote back the $9.6 million provision for diminution in value of Stewart Petroleum Company Limited as a result of the Tui development achieving first oil.

10. FIXED ASSETS

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Other Fixed Assets					
Cost	(i)	847	681	479	336
Accumulated depreciation		(361)	(160)	(223)	(121)
Book Value of Fixed Assets		486	521	256	215

Note:

(i) Other fixed assets includes land of $65,000 (2006: $65,000).

11. JOINT VENTURES

NZOG group interests held at 30 June 2007, in significant unincorporated joint ventures established to explore, develop and produce petroleum:

		Percentage Interest		Percentage Interest	
		Group	Group	Parent	Parent
		2007	2006	2007	2006
Licence - Field/Prospect Name	**Note**	%	%	%	%
PML 38146 - Kupe		15.0	15.0	-	-
PMP 38158 - Tui		12.5	12.5	-	-
PEP 38484 - Taitapa	(i)	-	100.0	-	-
PEP 38483 - Hector		18.9	18.9	-	-
PEP 38483 - Hector South Sub Block		12.5	12.5	-	-
PEP 38729 - Felix		75.0	75.0	-	-
PEP 38499 - Toke	(ii)	12.5	-	-	-

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) PEP 38499 was granted by the Ministry of Economic Development on 16 May 2007.

The contribution made by joint ventures to group results was to increase revenues by $834,000 (2006: $Nil) and expenses by $621,000 (2006: $797,000).

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

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current Assets				
Short term securities and cash deposits	5,034	2,574	-	-
Trade receivables	1,386	172	-	-
Field operation consumables	32	116	-	-
	6,452	2,862	-	-
Non-Current Assets				
Petroleum interests	110,374	44,879	-	-
	110,374	44,879	-	-
Total Assets	116,826	47,741	-	-
Current Liabilities				
Creditors	9,556	3,213	-	-
Total Liabilities	9,556	3,213	-	-
Net Assets Held in Joint Ventures	107,270	44,528	-	-

12. PETROLEUM AND COAL INTERESTS

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Carrying Value of Petroleum and Coal Exploration, Evaluation and Development Expenditure					
Accumulated expenditure brought forward		90,266	37,994	-	-
Expenditure capitalised during the year:					
Petroleum mining licence - Kupe PML38146	(i)	33,242	6,446	-	-
Petroleum mining permit - Tui PMP38158	(i)	35,934	18,016	-	-
Petroleum exploration permits	(ii)	2,425	573	-	-
Coal mining licence - Pike River MP41453	(iii)	55,222	28,078	-	-
Charged to operating surplus		(4,431)	(841)	-	-
Movement in capitalised expenditure for the period		122,392	52,272	-	-
Total Accumulated Exploration and Evaluation expenditure carried forward		212,658	90,266	-	-

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 such as the level of petroleum reserves, estimates of future petroleum sale prices, operating costs and capital expenditures. 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 year ending 30 June 2007. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development and successful IPO.

(iv) Development expenditure includes interest costs of $1.6 million incurred in financing the development projects.

13. OTHER NON-CURRENT ASSETS

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Security deposits	(i)	5,536	2,622	-	-

Note:

(i) 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.

14. CREDITORS

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Trade creditors, accruals and other creditors	26,254	9,788	1,454	1,345
Tax payable	521	-	-	-
	26,775	9,788	1,454	1,345

15. BORROWINGS

		Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current					
Borrowings	(i)	39,236	-	10,000	-
		39,236	-	10,000	-
Non-Current					
Borrowings	(i)	8,761	16,982	-	-
Convertible notes issued	(ii)	7,500	-	-	-
		16,261	16,982	-	-

Note:

(i) Borrowings for the NZOG group include:
- Term debt facility of US$27.5 million (2006: US$10.4 million) to fund the Tui development. At balance date the term debt facility was fully drawn.
- Short term revolving credit facility of $10.0 million (2006: $nil).
- Short term loans of $2.2 million (2006: $nil) from minority interest shareholders of PRCL.

(ii) Convertible notes have been issued by PRCL that mature on 31 December 2008.

16. PROVISIONS AND NON-CURRENT LIABILITIES

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Current					
Employee leave entitlements					
Opening balance		133	12	70	12
Net charge/(release) to operating surplus		(11)	121	(26)	58
Closing balance	(i)	122	133	44	70
Other		52	88	52	88
		174	221	96	158
Non-Current					
Provision for rehabilitation	(ii)	844	643	-	-
		844	643	-	-

Note:

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

(ii) Under an agreement with the Department of Conservation, Pike River is obliged to rehabilitate any affected land area to an approved condition once the Mine has been closed. This provision represents the costs expected to be incurred to rehabilitate any area where Mine development work has commenced..

17. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The group operates United States dollar bank accounts, for oil sales and certain permit interest sales proceeds, and loan accounts for borrowings to fund developments.

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 mining interests. Bank facility agreements require borrowers to hedge a portion of their exposure to oil price risk. The premiums paid in relation to oil price hedging are included in petroleum and coal interest at a cost of $2.6 million (2006: $2.8 million). Net fair value of these off-balance sheet oil price options at balance date was a $373,000 loss.

Credit Risk

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

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

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

Fair Values and Interest Rate Risk

At 30 June 2007, the fair value is considered to be materially the same as the carrying value for all financial assets and liabilities.

The interest rate spread and the contractual maturity dates of the group's financial assets and liabilities are as follows:

	Note	Carrying Value $'000 2007	Maturity	Interest Rate %
Assets				
Group				
New Zealand dollar bank and cash on deposit		21,851	At Call	8%
United States dollar bank and cash on deposit		13,463	At Call	5%
Receivables		2,100	n/a	n/a
Security deposits		5,536	various	5% to 8%
Parent				
New Zealand dollar bank and cash on deposit		12,390	At Call	8%
United States dollar bank and cash on deposit		6,026	At Call	5%
Receivables		530	n/a	n/a
Short term advances to PRCL		16,264	On Demand	13%
Convertible notes		3,500	Dec 2008	9%
Advances to wholly owned subsidiaries		33,110	On Demand	n/a
Liabilities				
Group				
Creditors		26,254	n/a	n/a
Revolving credit facility		10,000	6mths	9%
Tui borrowings	(i)	35,761	Mar 2013	various
Short term borrowings from minority interests		2,236	On Demand	13%
Convertible notes		7,500	Dec 2008	9%
Parent				
Creditors		1,454	n/a	n/a
Revolving credit facility		10,000	6mths	9%

Notes:

(i) At balance date NZOG has loan facilities of US$40 million available to fund the Tui development. At balance date the Term Debt facility of US$27.5 million was fully drawn (2006: US$10.4 million) and the Letter of Credit facility of US$12.5 million was also fully drawn (2006: US$8.75 million).

Pre-completion, this facility is secured over NZOG's assets other than those relating to PEP 38483 Hector, PML 38146 Kupe, Pike River Coal Limited and NZOG Nominees Limited.

18. TAXATION

New Zealand Oil & Gas Limited and wholly owned subsidiaries

New Zealand Oil & Gas Limited and wholly owned subsidiaries have a net future income tax benefit, including losses carried forward, at 30 June 2007 of $138,857,000 (2006 $76,893,000). 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.

	Note	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
i) Income tax expense					
Operating surplus before taxation		6,728	2,521	13,049	4,620
Income tax expense at 33%		2,220	832	4,306	1,525
Adjusted for tax effect of:					
Difference in foreign tax rates		(52)	-	-	-
Timing differences		(122)	-	-	-
Permanent differences - New Zealand		(1,647)	(720)	(4,306)	(1,525)
Income tax expense/(benefit) attributable to operating surplus		399	112	-	-
ii) Gross losses not taken into account					
Gross losses with a future income tax benefit not recognised	(i),(ii)	138,857	76,893	14,508	23,061

Notes:

(i) The value of taxation losses not brought to account at 30 June 2007 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.

(ii) The taxation losses above include timing differences of $75,005,000 (2006: $20,034,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

19. RELATED PARTY DISCLOSURES

Related parties of the company include those entities identified in note 9 and 11 as subsidiaries, joint ventures and associates.

PRCL had a total outstanding balance payable to the parent of $20,224,000. The outstanding includes a short term advance of $16,264,000, convertible note of $3,500,000 and other payables of $460,000. During the year the parent has charged PRCL a total of $1,337,000 for managerial services, loan facility fees and interest costs. Interest charge on the loans and convertible note for the year was $214,000.

During the year the parent company charged at cost $196,000 (2006: $95,000) to joint ventures in relation to management and technical services provided.

All other material transactions with related parties during the year are set out in Notes 6, 9, 11, 12, 15, 20 and 22.

There are no other material balances due to or from related parties at 30 June 2007, 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.

20. EMPLOYEE SHARE OWNERSHIP PLAN

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

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

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

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.

	Shares		2008 Options	
	2007 Number 000	2006 Number 000	2007 Number 000	2006 Number 000
NZOG Shares Allocated to Employees				
Allocated to employees				
Options to purchase shares/options	5,195	5,128	371	-
Savings shares/options	730	665	65	-
Partly paid or term paid shares	2,609	1,535	-	-
Unallocated	100	143	-	-
	8,634	7,471	436	-
As a percentrage of total reported capital	3.3%	3.4%		
Pan-Pacific Petroleum NL Shares Allocated to Employees				
Allocated to employees				
Options to purchase shares	3,814	4,604		
Savings shares	606	606		
Unallocated	-	835		
	4,420	6,045		

(b) Funding

NZOG group holds redeemable preference shares in Nominees at a book value of $2.3m (2006 $2.3m) which can be redeemed upon the company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

Funding made by employees to acquire saving shares amounts to $297,595 (2006: $297,595).

	Group 2007 $'000	Group 2006 $'000	Parent 2007 $'000	Parent 2006 $'000
Investment				
Investment in shares	2,280	2,280	2,280	2,280

(c) Control

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

(d) Financial Position and Performance of the ESOP

	Consolidated Market Values		Consolidated Costs	
	2007 $'000	2006 $'000	2007 $'000	2006 $'000
(i) Financial Position				
Equity				
Share capital			2,280	2,280
Retained deficit			(78)	(223)
			2,202	**2,057**
Assets				
Securities				
Allocated	6,912	6,039	2,246	1,525
Unallocated	109	146	43	665
	7,021	6,185	2,289	2,190
Less provision for diminution in value	-	-	(153)	(153)
	7,021	6,185	2,136	2,037
Bank	94	22	94	22
Total Assets	**7,115**	**6,207**	**2,230**	**2,059**
Less Liabilities				
Creditors	(28)	(2)	(28)	(2)
Net Assets	**7,087**	**6,205**	**2,202**	**2,057**
(ii) Financial Performance				
Interest income			4	4
Accounting and legal fees			10	30
Gain on sale of securities			162	192

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

21. GEOGRAPHICAL SEGMENTS

The company operates in the petroleum and coal industries in New Zealand.

22. COMMITMENTS AND CONTINGENT LIABILITIES

Capital Expenditure Commitments

As at 30 June 2007 the group had certain capital expenditure commitments in relation to the participation in the Tui, Kupe and Pike River developments.

As at 30 June 2007 the non-cancellable portion of PRCL's capital commitments was $18.4 million (2006: $5.6 million). These commitments relate to purchases of equipment required for Mine development.

The Kupe Formal Investment Decision was made in June 2006 and the NZOG group share of estimated total capital expenditure for the project is NZ$159 million.

Exploration Commitments

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.

Operating Lease Commitments

Pike River Coal Limited has rental commitments for non-cancellable operating leases totaling $152,000, with $59,000 payable within a year, $45,000 between one and two years, $48,000 between two to five years and nil payable beyond five years.

General Commitments

NZOG has agreed that PRCL may request it to provide equity funding or other financial support of up to $25 million to PRCL to fund the mine development to first coal on usual and reasonable arms' length terms and conditions, subject to PRCL having expended the $85 million IPO proceeds on mine development. This funding will only become available after 1 January 2008.

Contingent Liabilities

PRCL has provided an indemnity of approximately $2.22 million under an agreement dated 22 December 2006 in relation to the construction of vessels required to establish a coal transport chain which would be payable if the company did not proceed with the construction of the vessels under contract.

PRCL has entered into agreements with District Councils for the upgrade of roads that may be used by PRCL to transport coal. As at 30 June 2007 a contingent liability of $160,000 existed in relation to roading upgrade agreements for low priority work on roads that may not be required.

23. EARNINGS PER SHARE

	Group 2007	Group 2006
Basic and diluted earnings cents per share	2.7	1.0
Weighted average number of ordinary shares outstanding during the year used in the calculation	242,526,120	214,227,892

24. 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. In complying with NZ IFRS for the first time, NZOG will restate amounts previously reported under current New Zealand accounting standards (NZ GAAP) using NZ IFRS. This requires a restatement of opening balances as at 1 July 2006, with initial transitional adjustments recognised retrospectively and mainly against retained earnings at that date. The amounts/transactions incurred during the year ending 30 June 2007 will also be restated and will impact the income statement and balance sheet for that period.

Transition Management

A conversion project involving professional advisors and finance staff has been established. The project team is:

- assessing the impact of changes in financial reporting standards on NZOG's financial reporting and other related activities;
- designing and implementing processes to deliver financial reporting under NZ IFRS; and
- dealing with any related business impacts.

This project is largely complete and NZOG expects to be in a position to comply with the requirements of NZ IFRS for the period ending 31 December 2007, being the first period of published financial statements under NZ IFRS.

Impact on Transition to NZ IFRS

The purpose of this disclosure is to highlight the expected impact to NZOG as a result of transition from current policies to NZ IFRS based on the standards that exist at the date of issue of these financial statements. This note only provides a summary of the significant potential impacts resulting from transition to NZ IFRS and should not be taken as an exhaustive list of all the differences between existing NZ GAAP and 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 treatments adopted.

The estimated impact of transition to NZ IFRS from existing NZ GAAP is set out below. The first table details the estimated impact on Equity, Total Liabilities and Total Assets as at the date of transition. The second table details the estimated impact of the restatement as at 30 June 2007 on the group Balance Sheet and also the estimated impact on the group Income Statement for the year ended 30 June 2007.

It is possible that the actual impact of adopting NZ IFRS may vary from the information presented below, and the variation may be material.

Estimated Impact on New Zealand Oil & Gas Limited's Equity, Total Liabilities and Total Assets on transition to NZ IFRS on 1 July 2006

	Capital $m	Reserves $m	Retained Earnings $m	Minority Interest $m	Total Equity $m	Total Liabilities $m	Total Assets $m
Total reported under NZ GAAP	112	3	(14)	38	139	28	167
NZ IFRS adjustments:							
1. Deferred tax	-	-	9	-	9	-	9
2. Restatement of investment in Joint Ventures	-	-	-	-	0	(3)	(3)
3. Record Fair Value of investment in Resource Investments	-	5	-	-	5	-	5
4. Restatement of Asset Revaluation Reserve	-	(3)	4	-	1	-	1
Total NZ IFRS adjustments	0	2	13	0	15	(3)	12
Restated totals under NZ IFRS at 1 July 2006	112	5	(1)	38	154	25	179

Estimated Impact on New Zealand Oil & Gas Limited's Equity, Total Liabilities, Total Assets and Income of Transition to NZ IFRS at 30 June 2007

	EBIT $m	Net income $m	Total Equity $m	Total Liabilities $m	Total Assets $m
Total reported under NZ GAAP	5	6	183	83	266
NZ IFRS adjustments:					
1. Deferred tax	-	3	12	-	12
2. Restatement of investment in Joint Ventures	-	-	-	(9)	(9)
3. Record Fair Value of investment in Resource Investments	-	-	-	-	-
4. Restatement of Asset Revaluation Reserve	-	-	1	-	1
Total NZ IFRS adjustments	0	3	13	(9)	4
Restated totals under NZ IFRS at 30 June 2007	5	9	196	74	270

Changes in accounting policies on transition to NZ IFRS

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. Restatement of investment in Joint Ventures

Joint Ventures are accounted using the proportionate method of consolidation under NZ IFRS when there is "Joint Control". Joint control is where there is the contractually agreed sharing of control over an economic activity, and exists only when strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing the control. Where there is no Joint Control it is anticipated that the interest in the joint venture will be accounted for as an available-for-sale investment, under NZIAS 39, and will not be proportionately consolidated. Available-for-sale assets are recorded at fair value and any changes in fair values are recorded in equity (Asset revaluation reserve).

The company will continue to monitor industry practice in regard to recognition of investments in joint ventures.

3. Record Fair Value of investment in Resource Investments

On transition to NZ IFRS the investment in Resource Investments should be classified as an available-for-sale financial asset, which will be measured at fair value. Changes in fair value are recognised as a movement in the Asset Revaluation Reserve. Subsequent disposal of the Resource Investment will result in the change in fair value, previously recognised in equity, being recycled through to the profit and loss.

4. Restatement of Asset Revaluation Reserve

On transition to NZ IFRS NZOG will revise the asset revaluation reserve for treatment to meet the criteria required under NZ IFRS.

5. Financial Instruments

Accounting for financial instruments under NZ IFRS involves changes to NZOG's current policies. All derivative contracts will be carried at fair value on NZOG's 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.

25. EVENTS SUBSEQUENT TO BALANCE DATE

a) IPO of Pike River Coal Limited

On the 20 July 2007 the subsidiary company of New Zealand Oil & Gas Limited listed on the NZSX and ASX after raising the $85 million from the Initial Public Offer (IPO). With the shares issued under the IPO the group investment in PRCL was diluted to 31% from 54% at balance date. The dilution of the group investment in PRCL means that subsequent to balance date the investment in PRCL will change from a subsidiary to an associate company.

b) Tui First Oil

The first oil to flow for Tui was achieved on the 31 July 2007, with the first shipment (291,000/bbls total; NZOG share 12.5%) sold to buyers in Australia and was lifted on 18 August 2007.

c) Exploration drilling of Hector

The Hector-1 exploration well was drilled in August 2007 and was found to have no significant hydrocarbons and was plugged and abandoned on 14 August 2007. The investment in Hector by the company of $1.2 million to balance date was written off in the current financial year due to this drilling result. The company's share of the remaining costs incurred in drilling the well is estimated to be NZ$5 million, which will be expensed in the 2008 financial year.

d) Tui Reserves upgrade

A preliminary post-drilling reserves review by the Tui project operator AWE indicates that the proved and probable ("2P") developed reserves for the project are 32.0 million barrels of recoverable oil. This compares to the 27.9 million barrels of undeveloped reserves reported prior to drilling the development wells and represents an upgrade of around 15%.