



29 August 2006

### **NZOG SURPLUS \$2.3 MILLION FOR YEAR ENDED 30 JUNE 2006**

New Zealand Oil & Gas Limited announces a surplus of \$2.3 million (after minority interests) for the year ended 30 June 2006 (2005 deficit \$2.6 million). The surplus was made after writing off exploration costs of \$0.8 million. The result also includes a \$2.5 million accounting gain in respect of NZOG's shareholding in Pike River Coal Limited ("PRCL") as a result of PRCL issuing new shares to a third party, as previously reported in the half year result.

Total revenues for the 2006 year of \$7.5 million (2005 \$0.6 million) include interest income of \$2.3 million (2005 \$0.5 million) and a foreign exchange gain of \$2.7 million (2005 loss \$0.4 million).

An unrealised gain of \$4.1 million in the value of the company's investment in Pan Pacific Petroleum NL was not accounted for.

During the year ended 30 June 2006, NZOG group invested \$43 million in its three development projects: Kupe gas/oil, Tui oil and Pike River coal.

At 30 June 2006 NZOG held cash of \$41.7 million.

First oil from the Tui Oil fields is on-track for the quarter ended 30 June 2007. Following the final investment decision announcement by NZOG and its Kupe co-venturers in June 2006, first production from the Kupe gas/condensate (light oil) field is scheduled for the first half of 2009. The revised development and mine plan for Pike River now has first coal production scheduled for the quarter ended 31 December 2007.

Increased legal and disclosure requirements involved in having Pike River Coal Limited floated on the Australian Stock Exchange, as well as the New Zealand Stock Exchange, together with obtaining pre-requisite regulatory approvals have been a contributing factor in finalising this process.

#### **FOR FURTHER INFORMATION PLEASE CONTACT:**

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

**NEW ZEALAND OIL & GAS LIMITED****Results for announcement to the market**

Reporting Period	12 months to 30 June 2006
Previous Reporting Period	12 months to 30 June 2005

	Amount (NZ\$ 000s)	Percentage change (%)
Revenue from ordinary activities	7,538	119
Profit(loss) from ordinary activities after tax attributable to security holder	2,302	194
Net profit(loss) attributable to security holders	2,302	190

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 audited 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 audit report is not yet available and will be released when the annual report/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.

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2006

	Note	Consolidated		Parent Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
Total revenue	2(i)	7,538	584	7,748	948
Operating surplus/(deficit) before taxation	2(ii)	2,521	(2,463)	4,620	22,281
Taxation benefit/(expense)	17	(112)	(103)	-	-
Net surplus/(deficit) for the year		<u>2,409</u>	<u>(2,566)</u>	<u>4,620</u>	<u>22,281</u>
Net surplus/(deficit) comprises:					
Parent interest		2,302	(2,555)		
Minority interest	3	107	(11)		
		<u>2,409</u>	<u>(2,566)</u>		

## STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2006

	Note	Consolidated		Parent Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
Equity at beginning of year		90,916	49,556	66,984	1,876
<i>Total recognized revenue and expenses</i>					
Net surplus/(deficit) for the year		2,302	(2,555)	4,620	22,281
Movement in minority interest during the year		107	(11)	-	-
<i>Contributions from owners</i>					
Shares issued in subsidiary company to minority interest		33,854	1,099	-	-
Shares issued	4	11,833	89	11,833	89
2005 share options exercised	4(i)	1	42,738	1	42,738
Equity at end of year		<u>139,013</u>	<u>90,916</u>	<u>83,438</u>	<u>66,984</u>

The notes on pages 6 to 22 form part of and are to be read in conjunction with these financial statements.

# STATEMENT OF FINANCIAL POSITION

as at 30 June 2006

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current Assets</b>					
Short term securities and cash deposits	5	41,712	49,663	10,846	48,269
Receivables	6	21,264	1,739	669	1,551
Deferred expenses	6	1,543	-	-	-
Inventories	7	116	116	-	-
<b>Total Current Assets</b>		<b>64,635</b>	<b>51,518</b>	<b>11,515</b>	<b>49,820</b>
<b>Non-Current Assets</b>					
Prepayments	6	3,007	-	251	-
Deferred expenses	6	1,611	-	-	-
Investments in listed resource companies	8	4,583	1,463	3,661	541
Investment in associate company	9	2,280	2,603	2,280	2,603
Investment in subsidiaries	9	-	-	66,043	62,060
Advances to wholly owned subsidiary companies from parent	9	-	-	976	-
Fixed assets	10	521	277	215	198
Petroleum and coal interests	12	87,510	37,994	-	-
Other	13	2,622	55	-	-
<b>Total Non-Current Assets</b>		<b>102,134</b>	<b>42,392</b>	<b>73,426</b>	<b>65,402</b>
<b>Total Assets</b>		<b>166,769</b>	<b>93,910</b>	<b>84,941</b>	<b>115,222</b>
<b>Current Liabilities</b>					
Creditors	14	9,788	2,891	1,345	794
Provisions	15	221	103	158	103
<b>Total Current Liabilities</b>		<b>10,009</b>	<b>2,994</b>	<b>1,503</b>	<b>897</b>
<b>Non-Current Liabilities</b>					
Borrowings	15	16,982	-	-	-
Provisions	15	643	-	-	-
Deferred tax	15	122	-	-	-
Advances from wholly owned subsidiary companies to parent		-	-	-	47,341
<b>Total Non-Current Liabilities</b>		<b>17,747</b>	<b>-</b>	<b>-</b>	<b>47,341</b>
<b>Total Liabilities</b>		<b>27,756</b>	<b>2,994</b>	<b>1,503</b>	<b>48,238</b>
<b>NET ASSETS</b>		<b>139,013</b>	<b>90,916</b>	<b>83,438</b>	<b>66,984</b>
<b>EQUITY</b>					
Attributable to Shareholders of the Company	4	100,678	86,539	83,438	66,984
Attributable to Minority Shareholders of the Group	3	38,335	4,377	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>139,013</b>	<b>90,916</b>	<b>83,438</b>	<b>66,984</b>

The notes on pages 6 to 22 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  
2006

**R A Radford**  
Director  
2006

# STATEMENT OF CASH FLOWS

For the year ended 30 June 2006

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Cash Flows From Operating Activities</b>					
<i>Cash was received from:</i>					
Interest received		2,309	537	1,485	496
Other income		-	-	805	-
Dividends		-	-	5,367	-
		<b>2,309</b>	<b>537</b>	<b>7,657</b>	<b>496</b>
<i>Cash was paid for:</i>					
Production expenses		-	113	-	-
Interest		(28)	-	(1)	-
Other payments to suppliers and employees		(5,015)	(2,551)	(3,329)	(2,055)
		<b>(5,043)</b>	<b>(2,438)</b>	<b>(3,330)</b>	<b>(2,055)</b>
<b>Net cash flows from operating activities</b>		<b>(2,734)</b>	<b>(1,901)</b>	<b>4,327</b>	<b>(1,559)</b>
<b>Cash Flows From Investing Activities</b>					
<i>Cash was received from:</i>					
Sale of investment in associate company		323	996	323	1,148
Write back of investment		-	-	91	-
Sale of investment in subsidiary		-	-	1,775	4,539
Loans repaid by related parties		-	-	3,989	-
		<b>323</b>	<b>996</b>	<b>6,178</b>	<b>5,687</b>
<i>Cash was paid for:</i>					
Petroleum and coal expenditures		(43,415)	(9,252)	-	-
Purchase of other fixed assets		(351)	(261)	(89)	(248)
Purchase of shares in listed resource company		(3,120)	-	(3,120)	-
Purchase of shares in unlisted resource company		-	-	(7,840)	(1,481)
Loan to other entities and wholly owned subsidiaries		-	-	(49,956)	-
Security deposit		(2,558)	-	-	-
		<b>(49,444)</b>	<b>(9,513)</b>	<b>(61,005)</b>	<b>(1,729)</b>
<b>Net cash flows from investing activities</b>		<b>(49,121)</b>	<b>(8,517)</b>	<b>(54,827)</b>	<b>3,958</b>
<b>Cash Flows From Financing Activities</b>					
<i>Cash was received from:</i>					
Issue of shares in partly owned subsidiary		16,970	1,093	-	-
Issue of shares from exercise of 2005 options		1,325	41,430	1,325	41,430
Issue of shares		11,833	90	11,833	90
Proceeds from repayments of loans		-	150	-	5,792
Proceeds from borrowings		16,982	-	-	-
		<b>47,110</b>	<b>42,763</b>	<b>13,158</b>	<b>47,312</b>
<i>Cash was paid for:</i>					
Repayment of borrowings		-	-	-	(17,959)
Other		(5,910)	-	-	-
		<b>(5,910)</b>	<b>-</b>	<b>-</b>	<b>(17,959)</b>
<b>Net cash flows from financing activities</b>		<b>41,200</b>	<b>42,763</b>	<b>13,158</b>	<b>29,353</b>

The notes on pages 6 to 22 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS (continued)

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Net increase/(decrease) in cash</b>		<b>(10,655)</b>	<b>32,345</b>	<b>(37,342)</b>	<b>31,752</b>
Cash at beginning of year		49,663	17,695	48,269	16,459
Effect of exchange rate changes on cash		2,704	(377)	(81)	58
<b>CASH AT END OF YEAR</b>		<b>41,712</b>	<b>49,663</b>	<b>10,846</b>	<b>48,269</b>
<b>Made up as follows:</b>					
Short term securities and cash deposits	5	41,712	49,663	10,846	48,269

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

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Net surplus/(deficit) after taxation</b>	<b>2,302</b>	<b>(2,555)</b>	<b>4,620</b>	<b>22,281</b>
<i>Adjust for non-cash items in operating surplus/(deficit)</i>				
Write back of provision against investment in subsidiary	-	-	-	(23,190)
Provision / (release) against investment in associate	-	(1,031)	-	(1,031)
Provision against advances to associate companies	-	152	-	-
Gain in reduction of interest in subsidiary	(2,522)	-	-	-
Depreciation	107	66	72	50
Loss / (gain) on disposal of fixed asset	-	38	-	-
Deferred tax	122	-	-	-
Provision for income tax	-	134	-	-
Write-off of exploration, development, petroleum and coal expenditure	797	931	-	-
Movement in minority interest	107	(12)	-	-
<i>Changes in assets and liabilities:</i>				
(Increase)/decrease in debtors	(1,722)	72	(759)	(81)
(Decrease)/increase in creditors	467	211	73	470
(Decrease)/increase in provisions	312	(284)	240	-
<i>Items included in other cash flow categories:</i>				
Exchange (gains)/losses	(2,704)	377	81	(58)
<b>Net cash flows from operating activities</b>	<b>(2,734)</b>	<b>(1,901)</b>	<b>4,327</b>	<b>(1,559)</b>

The notes on pages 6 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

## Investments in Short Term Securities

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

## Investments in Listed Resource Companies

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

## Investments in Wholly Owned Subsidiaries

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

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

## Foreign Currencies

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

## Financial Instruments

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

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

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.

# NOTES TO THE FINANCIAL STATEMENTS

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 SURPLUS/(DEFICIT) BEFORE TAXATION

Operating surplus/(deficit) before taxation has been determined after:

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
(i) <b>Revenue</b>					
Interest received		2,309	538	1,485	498
Gain on reduction of interest in subsidiary	3	2,522	-	-	-
Dividends		-	-	5,367	-
Write back of investment		-	-	91	-
Other (including realised exchange gains)	(iii)	2,707	46	805	450
<b>Total revenue</b>		<b>7,538</b>	<b>584</b>	<b>7,748</b>	<b>948</b>

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
(ii) <b>Charging / (crediting) against expenses:</b>					
Directors' fees		265	160	210	140
Exchange losses		3	377	80	377
Fees paid to parent company auditors		61	47	48	47
Fees paid to parent company auditors for other services		73	18	61	12
Fixed asset depreciation		106	66	72	50
Interest paid		39	1	1	-
Operating expenditure		3,673	2,227	2,656	2,262
Petroleum and coal exploration expenditure written off or down to valuation		797	1,030	-	-
Provision / (release) against investment in associate		-	(1,031)	-	(1,031)
Provision against advances to associate		-	152	-	-
Write off / (back) provision against investment in subsidiary	(iv)	-	-	-	(23,190)

(iii) During the year the parent company received from Pike River Coal Limited \$805,000 (2005: \$88,000) for underwriting an issue of shares.

(iv) As a result of the liquidation of wholly owned subsidiary company Curdrige Investments Limited in 2005, the Parent Company realized a gain on the investment in Curdrige of \$23,190,000 that was previously provided against. There is no effect on the consolidated financial statements.

## 3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 30 June 2006 is based on a 39% (2005: 27.9%) minority interest in Pike River Coal Limited ('PRCL') and a 40% (2005: 40%) minority interest in Pafule Pty Limited ('Pafule').

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 have been recognised.

## NOTES TO THE FINANCIAL STATEMENTS

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 is entitled to receive \$19.4 million net of commitment fees on an issue of shares. These funds were received during August 2006.

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 the agreements having an issue price equal to the IPO price.

# NOTES TO THE FINANCIAL STATEMENTS

## 4. SHAREHOLDERS' EQUITY

	Note	Consolidated				Parent Company			
		2006 Number of Shares	2006 2005	2005 Number of Shares	2005	2006 Number of Shares	2006 2005	2005 Number of Shares	2005
		000s	\$000	000s	\$000	000s	\$000	000s	\$000
<b>Reported paid in share Capital</b>									
Paid in share capital – opening balance		205,372	102,835	133,964	60,007	205,372	102,835	133,964	60,007
Shares issued		13,334	11,821	150	90	13,334	11,821	150	90
Options exercised	(i)	2	1	71,258	42,738	2	1	71,258	42,738
		<b>218,708</b>	<b>114,657</b>	<b>205,372</b>	<b>102,835</b>	<b>218,708</b>	<b>114,657</b>	<b>205,372</b>	<b>102,835</b>
Partly paid shares issued	(ii)	1,535	15			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	(iii)	<b>214,378</b>	<b>111,878</b>	<b>199,507</b>	<b>100,041</b>	<b>214,378</b>	<b>111,878</b>	<b>199,507</b>	<b>100,041</b>
Options on issue	(i)	<b>107,239</b>				<b>107,239</b>			
<b>Reserves</b>									
Retained reserves/(deficit) brought forward			(16,393)		(13,838)		(39,522)		(61,802)
Net surplus/(deficit) for the year			2,302		(2,555)		4,620		22,280
Retained reserves/(deficit) carried forward			<b>(14,091)</b>		<b>(16,393)</b>		<b>(34,902)</b>		<b>(39,522)</b>
<b>Share revaluation reserve:</b>									
Opening and closing balance			-		-		6,465		6,465
<b>Asset revaluation reserve:</b>									
Opening and closing balance			2,891		2,891		-		-
<b>Total shareholders' equity</b>		<b>100,678</b>		<b>86,539</b>		<b>83,438</b>		<b>66,984</b>	

### Notes:

- (i) During the year ending 30 June 2006 the Company issued 107,088,759 ("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. 1,210 "2008 options" and 750 "2005 options" were exercised in the year ending 30 June 2006. The Company issued 150,000 options as part of an incentive programme, which are unlisted and exercisable at \$1.26.
- (ii) During the year ending 30 June 2006 the Company issued 1,535,000 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) 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

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Bank	8	13,553	3	12,160
Cash on deposit	41,704	36,110	10,843	36,109
	<b>41,712</b>	<b>49,663</b>	<b>10,846</b>	<b>48,269</b>

Included in cash on deposit are US dollar balances of US\$16,345,000; NZ\$26,700,000 (2005: US\$5,832,000; NZ\$8,262,000).

# NOTES TO THE FINANCIAL STATEMENTS

## 6. DEFERRED EXPENSES, RECEIVABLES AND PREPAYMENTS

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Current</b>					
Trade receivables	(i)	1,864	396	669	208
Minority interest equity receivable		19,400	-	-	-
Option conversion receivable	(ii)	-	1,343	-	1,343
Deferred expenses	(iii)	1,543	-	-	-
		<b>22,807</b>	<b>1,739</b>	<b>669</b>	<b>1,551</b>
<b>Non-current</b>					
Prepayments		3,007	-	251	-
Deferred expenses		1,611	-	-	-
		<b>4,618</b>	<b>-</b>	<b>251</b>	<b>-</b>

### Notes:

- (i) Parent Company trade receivables includes \$354,000 receivable from subsidiary company Pike River Coal Limited.
- (ii) Monies for 2005 options mailed prior to 30 June 2005 and received after that date, amounted to \$1,343,000.
- (iii) The current portion of deferred expenses relate to IPO costs for Pike River Coal Limited and includes \$45,000 paid to the parent company auditors for services related to the IPO.
- (iv) Deferred expenses includes certain costs for financing projects.

## 7. INVENTORIES

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Field operation consumables	116	116	-	-
	<b>116</b>	<b>116</b>	<b>-</b>	<b>-</b>

## 8. INVESTMENTS IN RESOURCE COMPANIES

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Shares and options in Pan Pacific Petroleum NL at book value	4,583	1,463	3,661	541
Market value based on listed share and option prices	9,364	2,117	5,578	578

## 9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
Investment in subsidiaries	-	-	76,644	72,661
Provision for diminution	-	-	(10,601)	(10,601)
	-	-	<b>66,043</b>	<b>62,060</b>
Intercompany loans and advances	-	-	976	-
Investment in unlisted associate - NZOG Nominees Limited	2,280	2,603	2,280	2,603

### Notes:

# NOTES TO THE FINANCIAL STATEMENTS

- (i) A schedule of subsidiary and associate companies is provided in note 22. Equity accounting for associate companies has not been applied as the amounts involved are not material.

## 10. FIXED ASSETS

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>Other fixed assets</b>					
Cost	(i)	681	327	336	248
Accumulated depreciation		(160)	(50)	(121)	(50)
<b>Book value of fixed assets</b>		<b>521</b>	<b>277</b>	<b>215</b>	<b>198</b>

### Note:

- i) Other fixed assets include land of \$65,000 (2005:\$65,000).

## 11. JOINT VENTURES

NZOG group interests held at 30 June 2006, in significant unincorporated joint ventures established to explore, develop and produce petroleum:

Licence	Prospect name	Note	Consolidated Percentage Interest		Parent Company Percentage Interest	
			2006 %	2005 %	2006 %	2005 %
PML 38146	Kupe		15.0	15.0	-	-
PMP 38158	Tui	(i)	12.5	-	-	-
PEP 38460	West Maui – Tui, Amokura, Pateke	(i)	-	12.5	-	-
PEP 38483	HSSB – Hector South Sub Block	(i)	12.5	-	-	-
PEP 38483	Hector		18.9	18.9	-	-
PEP 38484	West Kupe - Taitapa	(ii)	100.0	50.0	-	-
PEP 38718	Tuihu	(iii)	-	28.6	-	-
PEP 38729	Felix		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 PEP 38484 permit interest increased during the year due to the withdrawal of the other joint venture participant. The permit was relinquished on 14 July 2006.
- (iii) Permit was relinquished on 30 November 2005.

The contribution made by joint ventures to group results was to increase revenues by \$Nil (2005: \$Nil) and expenses by \$797,480 (2005: \$917,206 expense).

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

Consolidated		Parent Company	
2006	2005	2006	2005

# NOTES TO THE FINANCIAL STATEMENTS

	\$000	\$000	\$000	\$000
<b>Current Assets</b>				
Short term securities and cash deposits	2,574	1,395	-	-
Trade receivables	172	75	-	-
Field operation consumables	116	116	-	-
<b>Non-Current Assets</b>				
Petroleum interests	44,879	23,091	-	-
<b>Total Assets</b>	<b>47,230</b>	<b>24,677</b>	<b>-</b>	<b>-</b>
<b>Current Liabilities</b>				
Creditors and borrowings	3,213	567	-	-
<b>Total Liabilities</b>	<b>3,213</b>	<b>567</b>	<b>-</b>	<b>-</b>
<b>Net Assets held in Joint Ventures</b>	<b>44,528</b>	<b>24,110</b>	<b>-</b>	<b>-</b>

## 12. PETROLEUM AND COAL INTERESTS

	Consolidated		Parent Company	
	2006 \$000	2005 \$000	2006 \$000	2005 \$000
<i>Petroleum and coal exploration, evaluation and development expenditure</i>				
Accumulated expenditure brought forward	37,994	29,308	-	-
<i>Expenditure capitalised during the year:</i>				
Petroleum mining licence – Kupe PML38146 (i)	6,446	2,684	-	-
Petroleum mining permit – Tui PMP38158 (i)	15,260	2,384	-	-
Petroleum exploration permits (ii)	573	1,150	-	-
Coal mining licence – Pike River MP41453 (iii)	28,078	3,554	-	-
Charge to operating surplus	(841)	(1,086)	-	-
Total accumulated exploration and evaluation expenditure carried forward	87,510	37,994	-	-
<b>Total accumulated expenditure</b>	<b>87,510</b>	<b>37,994</b>	<b>-</b>	<b>-</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 year ending 30 June 2006. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development.

## 13. OTHER NON-CURRENT ASSETS

	Note	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
Taxation receivable / (payable)		-	(10)	-	-

# NOTES TO THE FINANCIAL STATEMENTS

Security deposits	21	<u>2,622</u>	65	-	-
		<u>2,622</u>	55	-	-

(i) Security deposits are held by government agencies subject to license work programme commitments being met.

## 14. CREDITORS

	Consolidated		Parent Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
Trade creditors	<u>9,788</u>	2,891	<u>1,345</u>	794

## 15. PROVISIONS AND NON-CURRENT LIABILITIES

	Note	Consolidated		Parent Company	
		2006	2005	2006	2005
		\$000	\$000	\$000	\$000
<b>Current</b>					
Employee leave entitlements	(i)	133	12	70	12
Other		88	91	88	91
		<u>221</u>	103	<u>158</u>	103
<b>Non-Current</b>					
Provision for rehabilitation		643	-	-	-
Borrowings	(ii)	16,982	-	-	-
Deferred taxation		122	-	-	-
Advances from wholly owned subsidiary companies to parent		-	-	-	47,341
		<u>17,747</u>	-	-	47,341

### Notes:

	Consolidated		Parent Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>(i) Movements in employee provision</b>				
Opening balance	12	296	12	296
Charge/(release) to operating surplus	121	(284)	58	(284)
Closing balance	<u>133</u>	12	<u>70</u>	12

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

(ii) NZOG has a term debt facility of US\$ 27.5 million to fund the Tui development. At balance date US\$10.4 million (NZ\$16.98 million) was drawn. Refer also to note 16 for further details.

# NOTES TO THE FINANCIAL STATEMENTS

## 16. 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 the Group to hedge a portion of its exposure to oil price risk. The premiums paid in relation to oil price hedging are included in prepayments at a cost of \$2.8 million. Fair value of these oil price options at balance date is \$2.6 million.

### 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

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

Estimated fair values, based upon net realisable value, of the group's remaining financial instruments at 30 June are as follows:

	Carrying Value 2006 \$000	Fair Value 2006 \$000	Carrying Value 2005 \$000	Fair Value 2005 \$000
<b>Consolidated</b>				
Investments in resource companies	4,583	7,446	1,463	2,117
Security deposits	2,622	2,622	65	65
Receivables	21,264	21,264	-	-
<b>Parent Company</b>				
Investments in resource companies	3,661	5,578	541	578

### Interest Rate Risk

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

Short Term Securities and Cash Deposits:	Maturity Date	Interest Rate
New Zealand dollar bank and cash on deposit	At call	7.25%
United States dollar bank and cash on deposit	At call	5.00%
<b>Security deposits</b>	Various	<b>4.0% to 7.55%</b>
<b>Borrowings</b>	March 2013	<b>Variable</b>

All other financial instruments are non-interest bearing.

### Loan Facilities

# NOTES TO THE FINANCIAL STATEMENTS

At balance date NZOG has loan facilities of US\$ 40 million available to fund the Tui development. The facilities are a Term Debt facility of US\$27.5 million and a Letter of Credit facility of US\$ 12.5 million. At balance date the Letter of Credit facility was drawn to US\$8.75 million and US\$10.4 million of the Term Debt facility was drawn.

This facility is secured over NZOG's assets other than those relating to PEP 38483, PML 38146 Kupe, Pike River Coal Limited and NZOG Nominees Limited. The facility is repayable over 7 years.

## 17. TAXATION

### (a) 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 2006 of \$76,893,000 (2005: \$54,850,000). 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	Consolidated		Parent Company	
		2006 \$000	2005 \$000	2006 \$000	2005 \$000
<b>(b) Consolidated and Parent</b>					
<b>i) Income tax expense</b>					
Operating surplus/(deficit) before taxation		2,521	(2,463)	4,620	22,281
Income tax expense/(benefit) at 33%		832	(813)	1,525	7,352
<b>Adjusted for tax effect of:</b>					
Permanent differences - New Zealand		(720)	836	(1,525)	(7,352)
		112	23	-	-
<b>Consolidated from Pafule:</b>					
Permanent differences		-	45		
Difference in foreign tax rates		-	(2)		
<b>Income tax expense/(benefit) on operating surplus before tax items</b>		-	66		
Tax losses not bought to account		-	37		
<b>Income tax expense/(benefit) attributable to operating surplus/(deficit)</b>		112	103		
<b>Future income tax benefit (consolidated from Pafule)</b>					
Opening balance		-	100		
Movement during the year		-	(100)		
Closing balance		-	-		
<b>ii) Taxation losses not taken into account</b>					
Gross taxation losses not recognised					
New Zealand	(i)	76,893	54,850	23,061	22,398

### Notes:

- (i) The value of taxation losses not brought to account at 30 June 2006 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 \$20,034,000 (2005: \$4,785,007) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. RELATED PARTY DISCLOSURES

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

During the year the parent company charged at cost \$511,000 to PRCL and received \$95,000 from operated 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 2, 6, 9, 11, 12, 15, 19 and 22. There are no material balances due to or from related parties at 30 June 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.

## 19. EMPLOYEE SHARE OWNERSHIP PLAN

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

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

	NZOG Shares		2008 Options	
	2006 Number 000	2005 Number 000	2006 Number 000	2005 Number 000
Allocated to employees				
▪ Options to purchase shares	5,128	4,403	-	-
▪ Savings shares	665	721	-	-
▪ Partly paid shares	1,535		-	-
Unallocated	143	1,086	-	-
	<b>7,471</b>	<b>6,210</b>	-	-
As a percentage of total reported capital	3.4%	3.1%		

### Notes:

- (i) Other than the above option allocations, no NZOG securities held in the ESOP are subject to put or call options, nor are the NZOG securities used as security for borrowings by the NZOG group or any other person.
- (ii) 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.
- (iii) As at 30 June 2006, the Remuneration Committee of the Board amended the Company's Employee Share Ownership Plan 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.
- (iv) Shares in Pan Pacific Petroleum NL (PPP) numbering 4,604,000 were subject to employee option rights at 30 June 2006 (2005: 4,604,000). 1,440,845 unallocated PPP shares were held by the ESOP at 30 June 2006 (2004: 1,440,845).

### (b) Funding

NZOG group holds redeemable preference shares in Nominees at a book value of \$ 2,280,000 (2005: \$2,603,000) 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. During the year NZOG received \$322,500 from the redemption of preference shares.

# NOTES TO THE FINANCIAL STATEMENTS

No advances are due to the NZOG group from Nominees (2005: Nil).

Funding made by employees to acquire saving shares amounts to \$ 297,595 (2005: \$297,595).

	Consolidated		Parent Company	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>Investment and advances</b>				
Investment in shares	2,280	2,603	2,280	2,603
	<b>2,280</b>	<b>2,603</b>	<b>2,280</b>	<b>2,603</b>

## (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	
	2006	2005	2006	2005
	\$000	\$000	\$000	\$000
<b>(i) Financial Position</b>				
<b>Equity</b>				
Share capital			2,280	2,603
Retained deficit			(223)	(416)
			<b>2,057</b>	<b>2,187</b>
<b>Assets</b>				
Securities:				
▪ Allocated	6,039	5,047	1,525	1,902
▪ Unallocated	146	1,288	665	404
	<b>6,185</b>	<b>6,335</b>	<b>2,190</b>	<b>2,306</b>
Less provision for diminution in value	-	-	(153)	(153)
	<b>6,185</b>	<b>6,335</b>	<b>2,037</b>	<b>2,153</b>
Bank	22	47	22	47
	<b>6,207</b>	<b>6,382</b>	<b>2,059</b>	<b>2,200</b>
<b>Less Liabilities</b>				
Creditors	(2)	(13)	(2)	(13)
	<b>(2)</b>	<b>(13)</b>	<b>(2)</b>	<b>(13)</b>
<b>Net Assets</b>	<b>6,205</b>	<b>6,369</b>	<b>2,057</b>	<b>2,187</b>
<b>(ii) Financial Performance</b>				
Interest income			4	7
Accounting and legal fees			30	17
Loss / (gain) on sale of securities			(192)	(908)

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

## 20. GEOGRAPHICAL SEGMENTS

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

# NOTES TO THE FINANCIAL STATEMENTS

## 21. COMMITMENTS

### Capital Expenditure Commitments

As at 30 June 2006 the group had certain capital expenditure commitments in relation to the participation in the Tui, Kupe and Pike River developments. The group had no capital expenditure commitments at 30 June 2005.

The Pike River Formal Investment Decision was made in September 2005. As part of the overall development PRCL has entered into material contracts with road and tunnelling contractors, of which \$5.6 million was committed as at 30 June 2006, comprising part of the total contract value. By way of agreement dated 7 August 2006, PRCL has agreed with ship builders to provide temporary funding of approximately \$1 million for certain ship design and funding costs.

The Tui Formal Investment Decision was made in November 2005 and the total capital expenditure budgeted for the project is US\$203 million (NZOG Group Share US\$26 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.

### 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 \$2,622,000 (2005: \$65,000) are held subject to licensed work programme commitments being met.

## 22. SUBSIDIARY COMPANIES AND ASSOCIATES

### Wholly Owned Subsidiary Companies

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

	Note	Group Interest	
		2006 %	2005 %
<b>Partly Owned Subsidiaries</b>			
Pafule Pty Limited	(i)	60	60
Pike River Coal Limited	12(iii)	61	72
<b>Associate Companies</b>			
NZOG Nominees Limited	19	50	50

# NOTES TO THE FINANCIAL STATEMENTS

## Notes:

- (i) Australian registered company.
- (ii) Interest held may vary depending on the value attributed to PRCL in the planned IPO.
- (iii) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration and production industry. The associate company is an investment company. Partly owned subsidiary Pafufe Pty Limited is an administration services company. PRCL is involved in the coal mining industry.

## 23. EARNINGS PER SHARE

	2006 Cents	2005 Cents
Basic and diluted earnings per share	1.0	(1.9)
Weighted average number of ordinary shares outstanding during the year used in the calculation	214,227,892	135,071,958

## 24. INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

## SUPPLEMENTARY INFORMATION AS REQUIRED BY NZSX AND ASX

	<b>Increase</b>	
	<b>\$000</b>	<b>%</b>
The amount and percentage change up or down from previous corresponding period of revenue from ordinary activities.	6,954	119
The amount and percentage change up or down from the previous corresponding period profit(loss) from ordinary activities after tax attributable to members	5,002	194
The amount and percentage change up or down from the previous corresponding period net profit(loss) for the period attributable to members	4,884	190
	<b>2006</b>	<b>2005</b>
Net tangible assets per security	65%	46%