New Zealand Oil & Gas Limited Annual Report 2006

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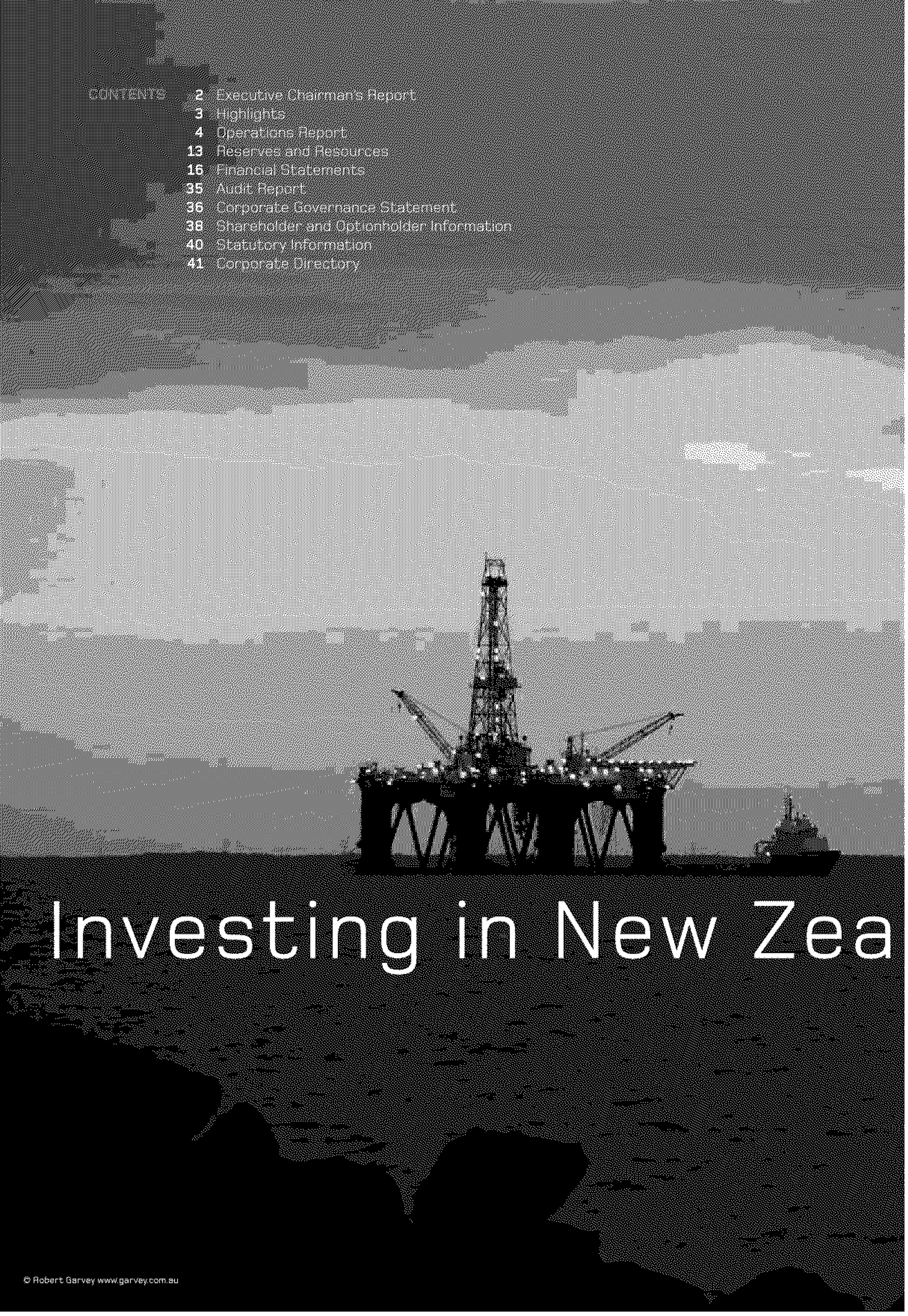
CONTENTS



Investing in New Zea

Shareholders of New Zealand Oil & Gas Limited are invited to attend the 2006 Annual General Meeting at the Crowne Plaza Hotel, Elliott Rooms, 128 Albert Street, Auckland on Thursday 26 October 2006 at 11am.

New Zealand Oil & Gas Limited ("NZOG") is an independent company listed on the New Zealand and Australian stock exchanges.

NZOG is a founding partner in two important petroleum developments in the offshore Taranaki Basin, New Zealand – the Tui Area oil fields and the Kupe gas/oil field – and has exploration interests in several Taranaki oil and gas prospects. NZOG is the cornerstone shareholder in a major coking coal mine project under development in New Zealand's South Island.

2006
ANNUAL REPORT

The 2006 Annual Report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.

R.F. Meyer
Director
12 September 2006

R A Radford
Director
12 September 2006

land's Energy Future

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

EXECUTIVE CHAIRMAN'S REPORT

Dear Investor,

I am pleased to report to you that in the last year we have achieved significant progress on the projects which will transform NZOG into a significant energy producer. All three of the company's key projects were given the development go-ahead during this 12 month period.

The Tui Area development decision was made in November 2005 with oil scheduled to flow from this fast-tracked development in the first half of 2007. All Kupe joint venture partners agreed in June 2006 to proceed with the Kupe development which will contribute 15% of New Zealand's gas supply once onstream in 2009. At Pike River, NZOG gave the go-ahead for development of the export coking coal mines in September 2005. Construction and fabrication activities, including the appointment of leading international construction partners, are now well advanced for each of these projects.

In addition to its key developments, NZOG is embarking on an exploration program aimed at further increasing the company's existing petroleum reserves which, on an oil equivalent basis, stand at 13.4 million barrels. Two attractive oil opportunities identified within the Tui Area permit, close to existing discoveries, will be drilled in mid-2007. The same drilling rig has also been secured for the Hector prospect, a very interesting exploration prospect to the south of the Tui discoveries.

The financial result for the year ended 30 June 2006 saw NZOG record a profit of $2.3 million (after minority interests) on revenues of $7.5 million, including a $2.5 million accounting gain in respect of NZOG's shareholding in Pike River Coal Limited and after writing off exploration costs of $0.8 million. This is a satisfactory result given that the company has yet to bring its production projects on stream.

Last year's successful share option conversion raised $43 million and was pivotal in enabling NZOG to proceed with its three developments. A further $12 million was raised through a small placement of shares and options in December 2005 and Pike River Coal Limited raised $37 million directly from two major new investors.

As significant investments will continue during the 2006/2007 year, debt raisings are also in progress for both the Kupe and Pike River projects. The company secured a $60 million (US$37.5 million) financing facility for Tui in March 2006.

The return on investment from these developments will commence with Tui in the 2007 financial year, which will enjoy a high front end revenue stream, with somewhat longer time-frames for Pike River and Kupe which are both long life assets with production expected over 15-20 years.

In summary, NZOG has taken major steps in the year under review to transform itself into a significant energy production company and is positioned for continued strong growth.

R A Radford
Executive Chairman
12 September 2006

HIGHLIGHTS

Developments

- Tui, Pike and Kupe developments get green light
- Tui NZ$60m debt facility achieved
- Successfully completed NZ$37m capital raising for Pike River Coal

Exploration

- Hector, Tieke and Taranui wells scheduled to be drilled
- Felix/Opito Updip transition seismic survey completed
- Further Kupe potential being evaluated

Corporate

- NZ$12m raised from institutional share placement
- Free bonus options issued to all shareholders

Tui Area Oil Development

PMP 38158 NZOG STAKE 12.5%

Tui fast-tracked for development of New Zealand's first dedicated offshore oilfield

First Oil: First oil production from the Tui Area oil fields is projected to flow in the June 2007 quarter. A combination of initial high flow rates and high oil prices will generate strong front end cashflow for NZOG. The high quality Kapuni sand reservoirs are expected to yield approximately 30% of reserves in the first 12 months. On that basis, at a price of US$65/barrel, NZOG's gross oil sales revenues from Tui in the first production year would total NZ$70 million. NZOG's share of Tui proved and probable oil reserves is 3.5 million barrels.

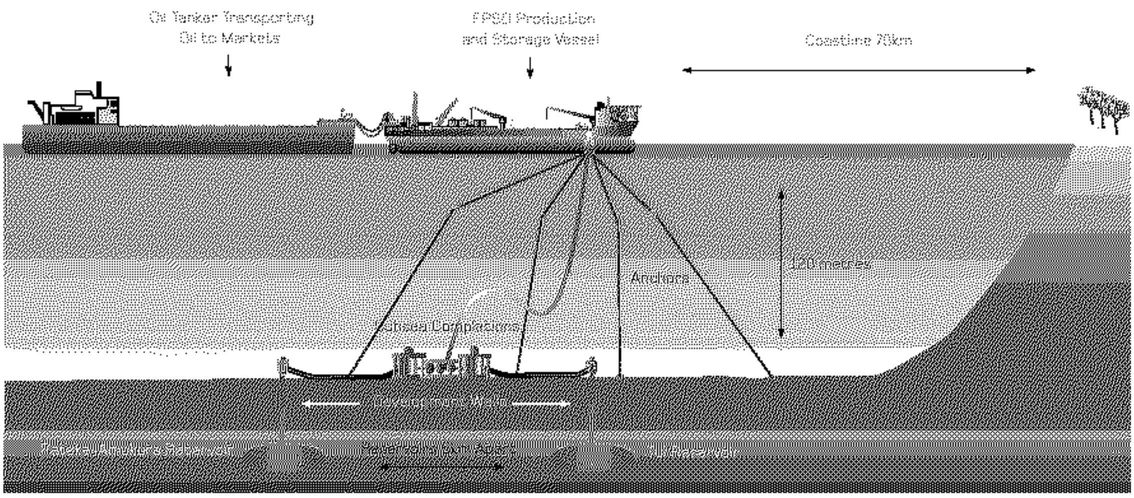
The Tui Area development encompasses the Tui, Amokura and Pateke oil pools discovered by NZOG and its co-venturers in 2003/2004. The development, in a water depth of 120 metres, involves four horizontally drilled and subsea completed wells, each of which will be individually tied back to a leased Floating Production Storage and Offloading vessel ("FPSO").

Construction: The Tui joint venture partners made a unanimous decision to fast-track the development of the Tui Area oil fields in November 2005. NZOG's decision to develop was based on US$40/barrel and at the date of this report, oil prices are in the region of US$65/barrel. The approved joint venture construction budget is US$203 million and as it is recognised that projects of this nature are subject to weather events and other delays which may increase final costs, NZOG will keep this budget figure under review.

Construction of subsea equipment and conversion of the tanker being used for the FPSO has progressed satisfactorily since the development decision, and substantially in accordance with scheduled timing. Prosafe Production Services Pty Ltd has been contracted to build, own and operate the FPSO, under a 5 year contract. The term contract value is US$178 million which the Tui joint venture can extend by five one year options. Prosafe is a major global owner and operator of floating production and storage vessels. Drilling of the Tui production wells is to commence in the December 2006 quarter, to synchronise with the arrival of the FPSO in the March 2007 quarter.

Oil Offtake: The project facilities are designed for a maximum initial oil flow rate of 50,000 barrels of oil per day. Production rates are initially high but have a relatively rapid rise in water production and associated decline in oil rate. The FPSO oil storage capacity will be approximately 600,000 barrels, to enable the efficient use of a range of differently sized oil tankers for transport to market. Mitsui & Co have been appointed to market Tui oil. The predominant market for the light sweet Tui Area oil is expected to be the Asia Pacific region, including Australian East Coast refineries.

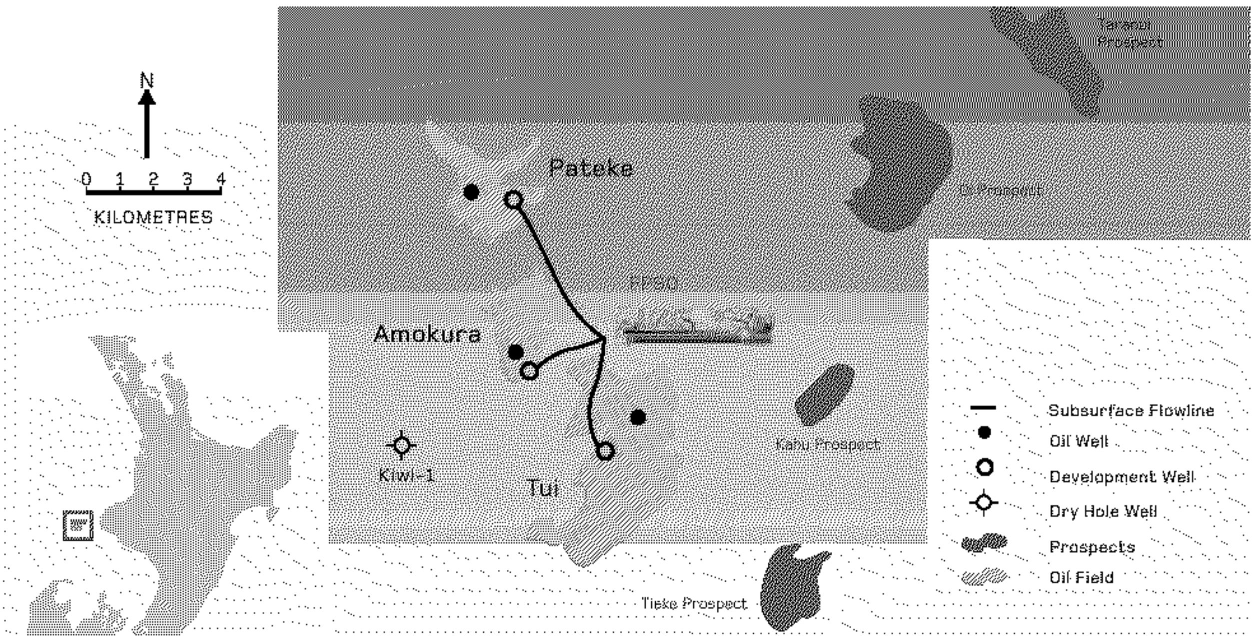
Financial: NZOG successfully arranged a $60 million (US$37.5 million) finance facility in March 2006 covering its entire share of the budgeted Tui development costs and associated contract deposits. To provide downside protection against falling oil prices, NZOG has hedged 25% of production reserves. Under those hedges a minimum oil price of US$50/barrel is guaranteed for 897,000 barrels, while a maximum price has only been locked in for 224,000 barrels, of US$86/barrel. Of NZOG's Tui reserves, 2.6 million barrels are presently unhedged and accordingly will achieve market prices.



Schematic of Tui Area Development and Production

Ocean Patriot semi-submersible rig

Tui Area Development PMP 38158



MP41453 NZOG stake 61% via PRCL

Milestone Reached in Progress of Major New Coal Mine

First Coal: First production of high quality coking coal from the Pike River coal mine on the West Coast of the South Island is scheduled for the December 2007 quarter. Production is scheduled to rise to 1.1 million tonnes per annum in the year ending December 2009. Pike River coal has unique properties such as low ash levels and high fluidity that are highly valued by international coke and steel companies.

Due to strong international demand for its high quality coals, all production from Pike will be exported internationally by ship. The Pike development involves construction of a tunnel to access the coal deposit, installation of a coal slurry pipeline and coal preparation plant, and establishment of a new coal transport chain from mine to export port.

Financial: Two major new equity partners invested $37 million directly in Pike River Coal Limited ("PRCL") during the 2006 financial year. Indian coke makers, Saurashtra Fuels Private Limited and Gujarat NRE Coke Limited have each made a substantial equity investment and also signed coal purchase contracts for the life of the Pike River mine, equivalent to approximately 550,000 tonnes per annum in total. In addition, NZOG and existing small shareholders invested $23 million during the 2006 financial year to fund development. The number of Pike River shares acquired by Gujarat for its $20 million investment will be matched to the initial public offer share price, on the same basis as the $40 million invested during the year by NZOG, small shareholders and Saurashtra.

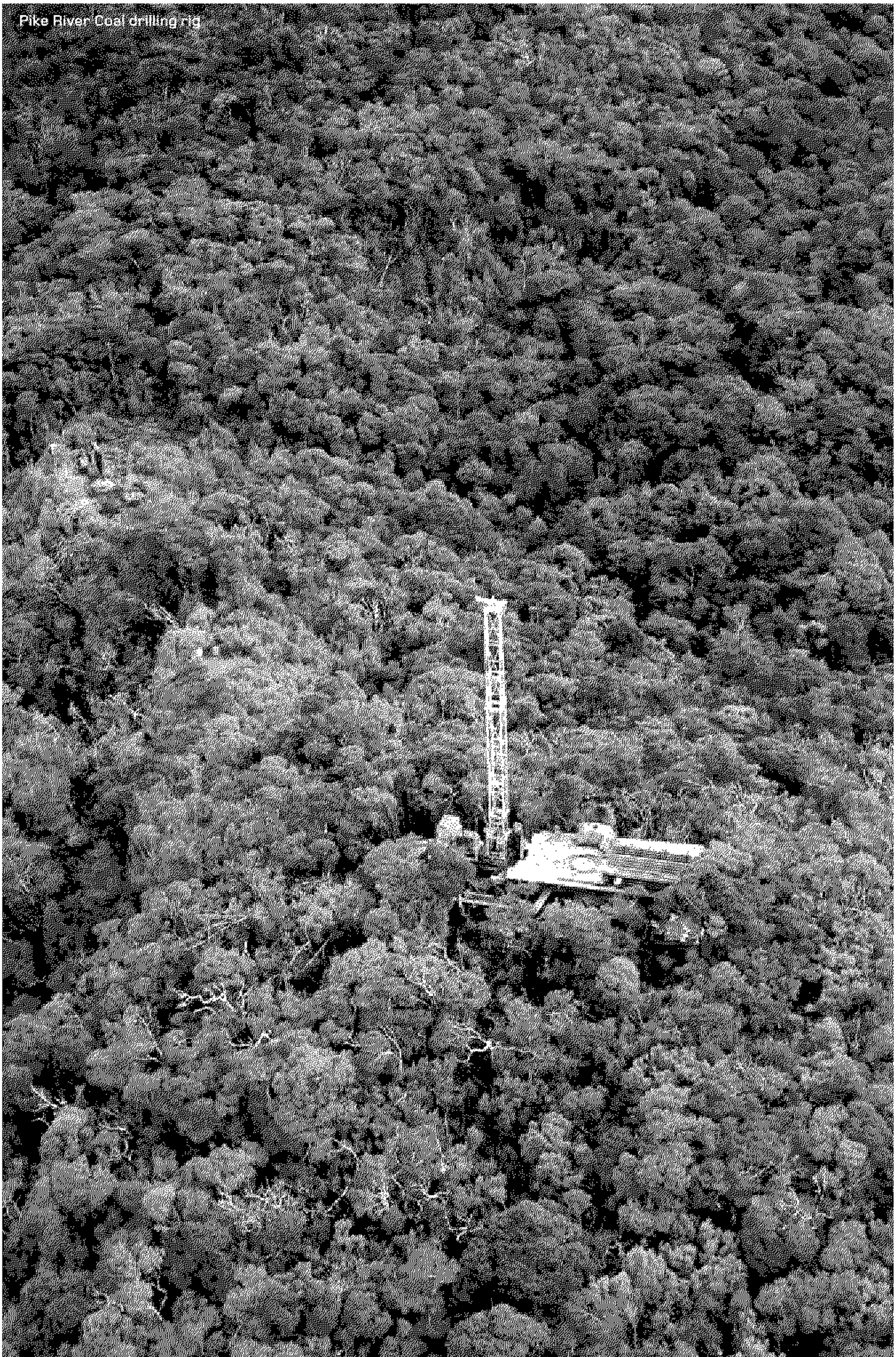
During the year, the PRCL Board approved a revised mine plan, production schedule and construction/operating cost budget. Higher steel and fuel costs and a declining NZ dollar caused the construction budget to increase to $144 million, which now includes a $12 million provision for contingencies. Of that budget, $29 million had been expended by 30 June 2006, leaving $115 million to spend. In addition, working capital of $29 million is required for the period until full production is reached in the 2009 year. Offsetting the construction cost increases, the long term hard coking coal price is forecast by independent expert AME Consulting to be US$74 per tonne in 2010, an increase of US$9 per tonne on the price predicted in 2005 by PRCL, but lower than the current market price.

Construction: The new equity raised during the year allowed mine access and construction works to commence in October 2005. Ten kilometres of access road and seven bridges have been constructed. Final design on the coal slurry pipeline was completed and the pipeline is currently being milled in Japan. Work on the 2.3 kilometre tunnel by internationally experienced contractor, McConnell Dowell commenced in September 2006 and installation of power supply to the mine and selection of mining equipment is underway.

Transport: A long term transport contract was executed in December 2005 by PRCL and the West Coast Coal Company ("WCCC"); a consortium comprising Port Taranaki Limited, TNL Group Limited, Wendell Group and Jebsens International. The contract is conditional on the parties concluding the financing arrangements. WCCC will make a substantial investment in port and shipping facilities under an 18 year contract with an annual delivery and export capability considerably in excess of the average 1.0 million tonnes expected from the Pike mine.

Coal will be trucked from the Pike mine to the Greymouth port and shipped by two purpose built coastal ships to Port Taranaki. From Port Taranaki, coal will be shipped in Panamax size vessels carrying loads of up to 65,000 tonnes to export markets in Asia, India, South America and Europe.


Scaffolding at Pike River Coal Mine tunnel entrance


Pike River Coal drilling rig

Kupe Gas to Supply 15% of New Zealand's Current Annual Demand

Development Decision: NZOG gave the green light to the significant Kupe project in June 2006, thereby completing a "trifecta" of development decisions during a 12 month period.

The Kupe development, in a water depth of 32 metres, involves an offshore unmanned platform, three initial production wells, a 30 kilometre pipeline for transport of gas and condensate to shore and a new onshore production station.

The unanimous decision by NZOG and its co-venturers to proceed with development of Kupe was made after a great deal of work on technical and engineering design, assessment, consultation and contract negotiation. The work included design of a new onshore production station to process gas from offshore; community consultation to obtain necessary resource consents; an upwards revision of total project reserves of gas, oil and LPG to 389 petajoules equivalent; a contractor alliance project delivery strategy; and renegotiation of a gas supply contract.

The investment decision was based on a construction budget of $980 million (NZOG share $147 million), which includes a substantial allowance for contingencies such as weather downtime during offshore installation activities. A key element for NZOG was a renegotiated gas supply contract with Genesis Energy, executed in June 2006. Higher gas prices, coupled with higher condensate and LPG prices and increased reserves have, to a substantial extent, offset increased project capital costs.

Financial: NZOG is presently negotiating bank project funding for the bulk of its Kupe investment, which will be outlaid over approximately two and half years. Genesis Energy, which has contracted to purchase NZOG's share of proved and probable gas reserves under a long-term contract, will also provide NZOG with up to $20m funding support.

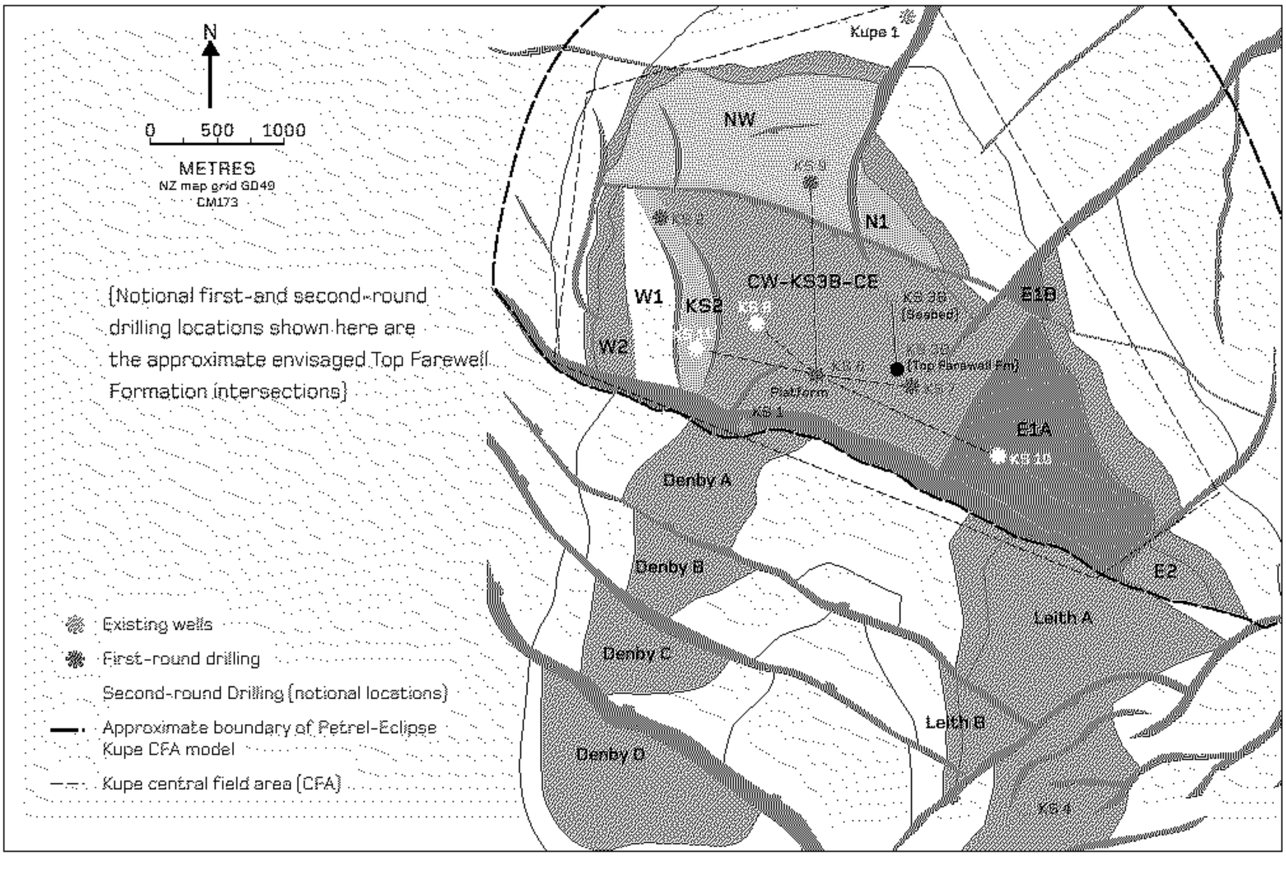
Construction: Construction management of the project will be through an alliance arrangement with the major contractor, Technip, whereby a single owner/contractor team will manage all major elements of the development, other than drilling of the production wells. This alliance approach is considered internationally to be the optimal way to achieve the effective and efficient execution of this type of project as it operates on a risk/reward share basis and aligns interests of the project owner and construction contractor. Construction works including wellhead fabrication are under way and drilling of the three Kupe production wells is scheduled for mid-2007. ENSCO Oceanics International has been contracted for the drilling using a newly built jack-up rig, the ENSCO 107.

First Production: Kupe production is on schedule to commence no later than the first half of 2009, delivering around 20 petajoules per annum of sales gas – approximately 15% of New Zealand's current annual demand. Kupe will also produce a light oil (condensate) and LPG, commencing at 1.9 million barrels per annum and 90,000 tonnes (765,000 barrels of oil equivalent) per annum, respectively. NZOG's share of Kupe proved and probable reserves is 9.9 million barrels of oil equivalent. At potential spot prices of US$65/barrel the value of NZOG's gross liquids sales revenue in the first year of production would be NZ$38million.

The Kupe project involves construction of key long life assets which have characteristics akin to an infrastructural project given their 15 to 20 year life span.

Exploration Upside: The Kupe permit includes several discoveries made in the late 1980's and early 1990's (Toru-1, Kupe South-4 and Kupe South-5) as well as a series of prospects, which are adjacent to the central field area (Leith and Denby prospects), which represent add-on opportunities to the Kupe development. There is also potential for additional gas within the northwest block of the central field area itself, which will be determined once the initial production well into that block is drilled.

Central Field Area of Kupe Development PML 38146



EXPLORATION ACTIVITIES

Tieke and Taranui Prospects

PMP 38158 NZOG 12.5% stake

Tui Satellite Exploration Prospects Being Drilled

The Tieke and Taranui prospects are located approximately 7 kilometres southeast and 15 kilometres northeast of Tui respectively. These Kapuni F-sand reservoir targets are similar to those discovered in the Tui Area oil fields and have potential in the event of discovery, of the order of 5-20 million barrels of oil each. Their proximity to the Tui development would provide an opportunity to quickly bring to production any discoveries made. Tieke-1 and Taranui-1 are scheduled to be drilled after the Tui development wells in the second quarter of 2007.

Further prospects (Oi and Kahu) exhibit similar subtle closures at the Kapuni F-sand level as Tieke and Taranui and provide additional potential upside in the Tui mining permit area.

Hector Prospect | Hector South Sub-Block

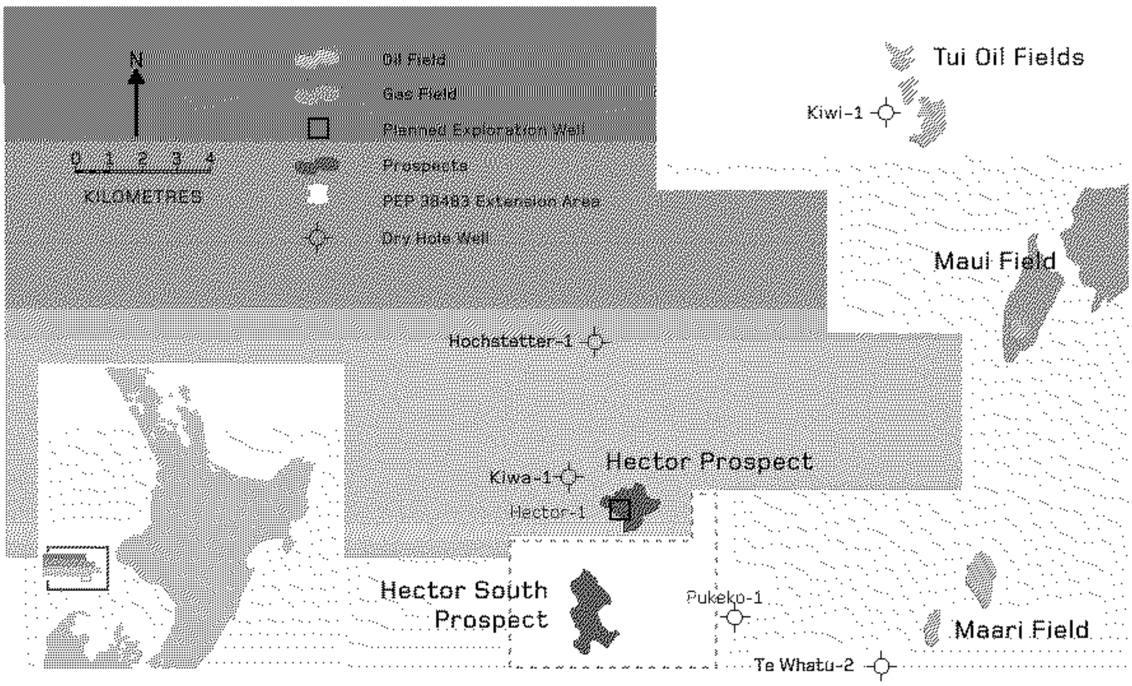
PEP 38483 NZOG stake 18.9% | **NZOG stake 12.5%**

Exploring a Potential New Oil Fairway with Substantial Upside

The Hector-1 exploration well will test a dip-closed structure at the Kapuni-C level (as mapped on the 3D seismic survey of 2005) that has potential recoverable oil of 50-60 million barrels. In addition to substantial upside at this prospect, a discovery at Hector would trigger further drilling activity in this permit because it would prove a new oil migration fairway within the Taranaki Basin. Several follow-up drilling targets, such as Hector South, have already been identified in the PEP 38483 permit. During the past year a portion of the former PEP 38460 exploration permit containing the Hector South prospect was merged with PEP 38483.

Hector-1 will be drilled using the Ocean Patriot semi-submersible drill rig as part of the offshore Taranaki drilling campaign. The drilling window for Hector-1 will be defined later this year, with the exact timing subject to finalisation of the Tui development installation schedule, which takes precedence. NZOG has a 18.9% interest in the PEP 38483 permit and holds 12.5% in the Hector South sub-block extension area.

Map of Hector and Hector South Prospects




Veritas Viking II shooting transition seismic survey

Felix and Opito-Updip Area

PEP 38729 NZOG stake 75%

New Seismic Survey Completed

The Felix/Opito - Updip area is located at the northern end of the Kapuni Group ancient beach sands system, which was buried in the Eocene era 40 million years ago. These sandstones have formed highly prolific, proven hydrocarbon reservoirs elsewhere in the Taranaki Basin, as evidenced by the offshore Maui, Pohukura and Tui fields.

NZOG is operator of PEP 38729 and completed a refraction seismic survey in early 2006, to further define the potential of the Felix and Opito-Updip structures. Processing and integration of the seismic data together with the well information obtained from the Opito-1 well drilled in 2002 provide strong evidence for prospective trapping structures in the permit.

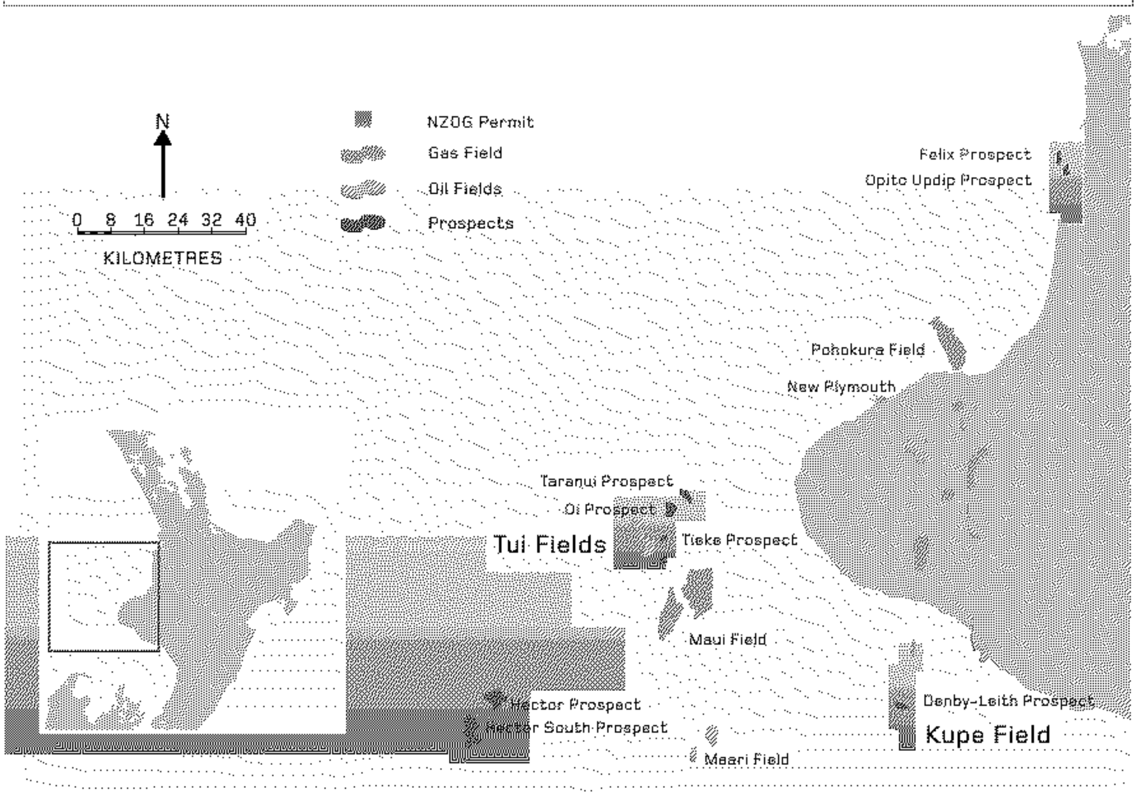
During August 2006, NZOG completed a coastal "transition zone" seismic survey to tie the existing onshore and offshore seismic data sets together, and to further delineate the Felix and Opito-Updip structures, including the identification of possible drilling locations. The decision on whether to drill an exploration well on the Felix or Opito-Updip structures is expected to be made in the first half of 2007 following evaluation of this new seismic data.

West Kupe

PEP38484 NZOG stake 100%

NZOG relinquished the West Kupe permit (PEP38484) during the year. This decision was made as the company was unable to obtain a time extension for drilling and after factoring in the relatively high risks associated with the Taitapa prospect, and major increases in rig costs.

NZOG Taranaki Basin Permits



CORPORATE & ADMINISTRATION

Share Placement: A small private placement of 13.3 million shares was made in December 2005 raising $12 million to advance NZOG's oil and gas projects. The issue amounted to approximately 6% of the company's issued shares.

Pan Pacific Petroleum Shares: The company subscribed for additional Pan Pacific Petroleum NL shares in a December 2005 rights issue at a cost of $3.1 million, taking its holding in Pan Pacific to 10.1%. The additional investment was made to increase the company's exposure to the Tui Area oil fields and associated prospects. The market value of the Pan Pacific holding was $9.4 million at 30 June 2006.

Bonus Option Issue: NZOG's free 1:2 bonus option issue to shareholders was completed during December 2005 and resulted in the issue of 107,050,236 options. These options have traded in the range of 8 to 19 cents.

FINANCIAL

The company announced 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 PRCL as a result of PRCL issuing new shares to a third party.

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 was not accounted for in the 2006 financial result.

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 (including $11.3 million held by PRCL).

RESERVES AND RESOURCES STATEMENT

OIL & GAS RESERVES AND RESOURCES

	[illegible]		[illegible]		[illegible]		[illegible]
Undeveloped – Proved and Probable	2006	2005	2006	2005	2006	2005	
Kupe 15%	2.2	2.2	38	42	159	94	9.9
Tui 12.5%	3.5	2.5 to 3.75					3.5
Total							13.4

* Million barrels of oil equivalent has been calculated as the total oil equivalent of the oil, condensate, natural gas and LPG figures.

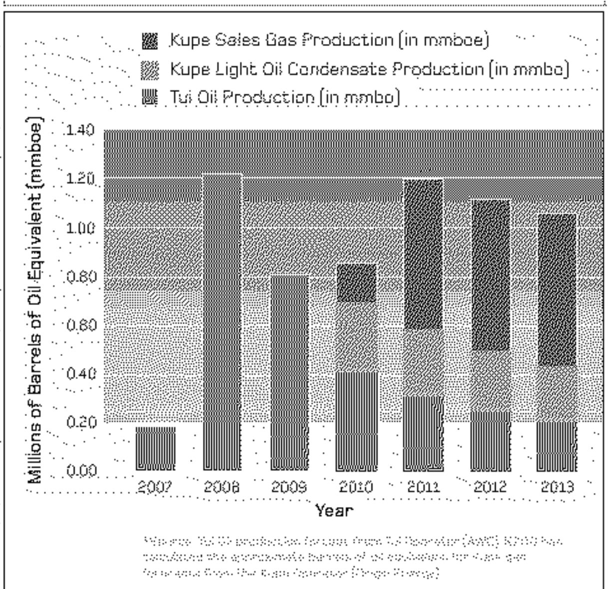
COAL RESERVES AND RESOURCES

[illegible]	
Brunner Seam	[illegible]
Measured	11.5
Indicated	27.5
Inferred	19.5
Total	58.5

SOURCE OF SALEABLE COAL FROM THE PIKE RIVER COAL MINE PLAN

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Reserves	11.0	0.4	0.9	9.7
From Indicated and Inferred Resources	10.6	2	0.7	7.9
Totals	21.6	2.4	1.6	17.6

NZOG Forecast Annual Production of Oil and Gas



Notes

(1) Proved oil and gas reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically producible.

(2) The group's interests in undeveloped oil and gas reserves are in the Kupe and Tui fields (offshore South Taranaki).

(3) Coal reserves are the estimated quantities of coal which are expected with reasonable certainty to be recoverable based on financial studies and under existing economic and operating conditions. Proved reserves have a higher degree of confidence of economic extraction and have closer drilling or 'observation points' (0.5km to 1km apart), than probable reserves which are less well defined and have less dense drilling or observation points (1km to 2km apart).

(4) Total ROM Production is the total unprocessed production from the mine inclusive of all extracted material including coal, dolomite and reject. Reject is the material such as rock which is extracted as part of ROM production and is removed from the coal during the coal preparation process and is of no commercial value. Dolomite is a precipitate found in nodules within the ROM production seam which is extracted as part of ROM production, is separated from the coal during the coal preparation process and is of commercial value as a fertiliser. Saleable Coal is the final saleable coal production of Pike River that is transported to Port Taranaki for export.

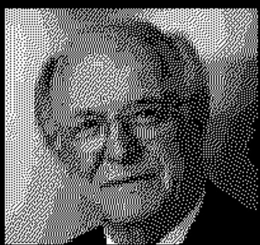
(5) Oil, gas and coal reserves are reported in accordance with Section 10.11 and Section 10.12 respectively, of the New Zealand Stock Exchange listing rules. Oil and gas reserves accurately reflect information supplied by the respective Joint Venture Operators. Pike River's coal resources are estimated by Golder Associates (NZ) Limited. The Mine Plan for extraction of coal from which the sources of saleable coal was derived, was prepared by Minarco Asia Pacific Pty Limited.

(6) All reserves are unaudited.

DIRECTORS

Mr R A Radford
Executive Chairman and Chief Executive

Tony Radford, CA (NZ) has spent most of his career in petroleum and mining companies, including senior financial positions in the steel, minerals and oil and gas industries. Tony is a founding director of New Zealand Oil & Gas.



Prof R F Meyer
Deputy Chairman

Ray Meyer obtained his BE from the University of New Zealand (Canterbury) and his PhD from the University of Manchester. A Distinguished Fellow of the Institution of Professional Engineers New Zealand, his career includes senior positions in Canada and Chair of Mechanical Engineering and Dean of Engineering at the University of Auckland. He was a director of ECNZ, Auckland UniServices Ltd, Transpower and Watercare Services Ltd and is currently a director of Wellington Drive Technologies Ltd. Ray joined the NZOG board in 2000 as Deputy Chairman. He also heads the board's audit and remuneration committees.

Mr P G Foley

Originally from Auckland, Paul Foley is a senior corporate/commercial lawyer based in Wellington, where he is a partner in Minter Ellison Rudd Watts. Paul acts for listed companies operating in the petroleum exploration and minerals fields. He became a director of NZOG in 2000.

Mr S J Rawson

Steve Rawson is originally from Wellington and has an MSc in geophysics from Auckland University. His career started in petroleum geophysics, later followed by managerial positions with Fletcher Energy in trading, logistics and supply. Steve is General Manager New Business Development for Mighty River Power Limited. He joined the board of NZOG in 2000.

Mr D R Scoffham

David Scoffham joined the board of NZOG in 2003. David took up residence in New Zealand following over 30 years international experience in the oil industry. This included experience in Egypt, Gabon, Oman and Venezuela with Shell, and in exploration management with UK independent Enterprise Oil PLC. He played a major role in several important oilfield discoveries in NW Europe, which resulted in the major expansion of Enterprise Oil. David is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics).

MANAGEMENT TEAM

Dr Jonathan Salo
Senior Manager Geology

Jonathan Salo joined NZOG in January 2006 as Senior Manager, Geology. Dr Salo has 20 years petroleum industry experience in the USA, Africa, Middle East, Asia, and Australia. He is credited by professional organisations with the discovery of five billion barrels of oil equivalent. Jonathan has numerous professional and industry awards (including exploration awards), and a PhD in Petroleum Geology from the University of Adelaide.

Helen Mackay
General Counsel

Helen Mackay joined NZOG in July 2006 as General Counsel. Helen was previously in legal and commercial roles with Vector, NGC and ECNZ and has practised as an in-house lawyer in New Zealand and England. She has an LLB and BCA from Victoria University of Wellington. Helen is also Vice-President (Wellington) of the Corporate Lawyers Association of New Zealand.

Gordon Ward
General Manager

Gordon Ward has 19 years experience in the resource sector with NZOG. He was appointed NZOG's General Manager in 2004. Gordon has had particular responsibility for the Pike River Coal project. Gordon holds a Bachelor of Business Studies from Massey University (Palmerston North) and obtained his Chartered Accountant qualification whilst a senior auditor with Coopers & Lybrand (now Price Waterhouse Coopers). He was appointed to the Pike River Board in July 2006.

Andrew Stewart
Manager Accounting and Compliance

Andrew Stewart joined NZOG in April 2004. Andrew has 20 years business experience with various financial institutions in New Zealand, UK, Ireland and Australia as well as large multi-nationals including the former New Zealand Dairy Board and Fonterra, Coca-Cola and more recently Rolls-Royce. Andrew holds MBA, BCA and CA (NZ) qualifications.

Dr Stefan Kleffmann
Manager Geophysics

Stefan Kleffmann joined NZOG in December 2004 as Manager, Geophysics. Dr Kleffmann has 14 years experience relevant to the petroleum industry and completed his PhD in Geophysics at Victoria University of Wellington. Immediately prior to joining NZOG, he worked with an international consultancy on a range of exploration and production oil and gas projects within Australasia.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $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		2,409	(2,566)	4,620	22,281
Net surplus/(deficit) comprises:					
Parent interest		2,302	(2,555)		
Minority interest	3	107	(11)		
		2,409	(2,566)		

STATEMENT OF MOVEMENTS IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
Equity at beginning of year		90,916	49,556	66,984	1,876
Total recognized revenue and expenses:					
Net surplus/(deficit) for the year		2,302	(2,555)	4,620	22,281
Movement in minority interest during the year		107	(11)	-	-
Contributions from owners:					
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		139,013	90,916	83,438	66,984

The notes on pages 22 to 34 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 2006 $000	Consolidated 2005 $000	Parent Company 2006 $000	Parent Company 2005 $000
Current Assets					
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	-	-
Total Current Assets		64,635	51,518	11,515	49,820
Non-Current Assets					
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	-	-
Total Non-Current Assets		102,134	42,392	73,426	65,402
Total Assets		166,769	93,910	84,941	115,222
Current Liabilities					
Creditors	14	9,788	2,891	1,345	794
Provisions	15	221	103	158	103
Total Current Liabilities		10,009	2,994	1,503	897
Non-Current Liabilities					
Borrowings	15	16,982	-	-	-
Provisions	15	643	-	-	-
Deferred tax	15	122	-	-	-
Advances from wholly owned subsidiary companies to parent		-	-	-	47,341
Total Non-Current Liabilities		17,747	-	-	47,341
Total Liabilities		27,756	2,994	1,503	48,238
NET ASSETS		139,013	90,916	83,438	66,984
EQUITY					
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	-	-
TOTAL SHAREHOLDERS' EQUITY		139,013	90,916	83,438	66,984

The notes on pages 22 to 34 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
29 August 2006

R A Radford
Director
29 August 2006

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2006

	Note	Consolidated		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Cash Flows From Operating Activities					
Cash was received from:					
Interest received		2,309	537	1,485	496
Other income		-	-	805	-
Dividends		-	-	5,367	-
		2,309	537	7,657	496
Cash was paid for:					
Production expenses		-	113	-	-
Interest		(28)	-	(1)	-
Other payments to suppliers and employees		(5,015)	(2,551)	(3,329)	(2,055)
		(5,043)	(2,438)	(3,330)	(2,055)
Net Cash Flows From Operating Activities		(2,734)	(1,901)	4,327	(1,559)
Cash Flows From Investing Activities					
Cash was received from:					
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	-
		323	996	6,178	5,687
Cash was paid for:					
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)	-	-	-
		(49,444)	(9,513)	(61,005)	(1,729)
Net Cash Flows From Investing Activities		(49,121)	(8,517)	(54,827)	3,958
Cash Flows From Financing Activities					
Cash was received from:					
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	-	-	-
		47,110	42,763	13,158	47,312
Cash was paid for:					
Repayment of borrowings		-	-	-	(17,959)
Other		(5,910)	-	-	-
		(5,910)	-	-	(17,959)
Net Cash Flows From Financing Activities		41,200	42,763	13,158	29,353

The notes on pages 22 to 34 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (continued)

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Company 2006 $000	Parent Company 2005 $000
Net increase/(decrease) in cash		(10,655)	32,345	(37,342)	31,752
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
CASH AT END OF YEAR		41,712	49,663	10,846	48,269
Made up as follows:					
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 2006 $000	Consolidated 2005 $000	Parent Company 2006 $000	Parent Company 2005 $000
Net surplus/(deficit) after taxation	2,302	(2,555)	4,620	22,281
Adjust for non-cash items in operating surplus/(deficit):				
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)	-	-
Changes in assets and liabilities:				
(Increase)/decrease in debtors	(1,722)	72	(759)	(81)
(Decrease)/increase in creditors	467	211	73	470
(Decrease)/increase in provisions	312	(284)	240	-
Items included in other cash flow categories:				
Exchange (gains)/losses	(2,704)	377	81	(58)
Net cash flows from operating activities	(2,734)	(1,901)	4,327	(1,559)

The notes on pages 22 to 34 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.

(a) Production interests

Production interests comprise exploration, evaluation and development costs (excluding fixed asset expenditure) incurred in relation to areas of interest in which petroleum 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.

(b) Development interests

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

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

(c) Exploration and Evaluation interests

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

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

(ii) exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves 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.

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

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

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

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

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

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

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

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

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

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

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
(i) Revenue					
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
Total revenue		7,538	584	7,748	948

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
(ii) Charging/(crediting) against expenses					
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 Curdridge Investments Limited in 2005, the parent company realized a gain on the investment in Curdridge 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 has been recognised.

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

Pursuant to an Equity Subscription Agreement between NZOG, Gujarat NRE Coke Limited (Gujarat) and PRCL dated 12 June 2006 (the "Gujarat ESA"), PRCL 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.

4. SHAREHOLDERS' EQUITY

	Note	2006 Number of Shares 000s	2006 $000	2005 Number of Shares 000s	2005 $000	2006 Number of Shares 000s	2006 $000	2005 Number of Shares 000s	2005 $000
Reported paid in share Capital									
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
		218,708	114,657	205,372	102,835	218,708	114,657	205,372	102,835
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)	214,378	111,878	199,507	100,041	214,378	111,878	199,507	100,041
Options on issue	(i)	107,239	–	–	–	107,239	–	–	–
Reserves									
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			(14,091)		(16,393)		(34,902)		(39,522)
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			100,678		86,539		83,438		66,984

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
	41,712	49,663	10,846	48,269

Included in cash on deposit are US dollar balances of US$15,345,000; NZ$26,700,000 (2005: US$5,832,000; NZ$8,262,000).

6. DEFERRED EXPENSES, RECEIVABLES AND PREPAYMENTS

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
Current					
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	–	-	–
		22,807	1,739	669	1,551
Non-current					
Prepayments		3,007	–	251	–
Deferred expenses		1,611	–	-	–
		4,618	–	251	–

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	-	–

8. INVESTMENTS IN RESOURCE COMPANIES

	Consolidated		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Non-current				
Shares and options in Pan Pacific Petroleum NL at book value	4,563	1,463	3,661	541
Market value based on listed share and option prices	9,364	2,117	5,578	578

9. INVESTMENTS IN SUBSIDARY 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)
Investment in Subsidiary Companies	-	-	66,043	62,060
Intercompany loans and advances	-	-	976	-
Investment in unlisted associate – NZOG Nominees Limited	2,280	2,603	2,280	2,603

Note:

(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
Other fixed assets					
Cost	(i)	681	327	336	248
Accumulated depreciation		(160)	(50)	(121)	(50)
Book value of fixed assets		521	277	215	198

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:

Joint Venture			Consolidated		Parent Company	
			Percentage Interest			
Licence	Prospect name	Note	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	Hector		18.9	18.9	-	-
PEP 38483	HSSB – Hector South Sub Block	(i)	12.5	-	-	-
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 $797,460 (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 $000	2005 $000	2006 $000	2005 $000
Current Assets				
Short term securities and cash deposits	2,574	1,395	-	-
Trade receivables	172	76	-	-
Field operation consumables	116	116	-	-
Non-Current Assets				
Petroleum interests	44,879	23,091	-	-
Total Assets	47,230	24,677	-	-
Current Liabilities				
Creditors and borrowings	3,213	567	-	-
Total Liabilities	3,213	567	-	-
Net Assets held in Joint Ventures	44,528	24,110	-	-

12. PETROLEUM AND COAL INTERESTS

		Consolidated		Parent Company	
		2006 $000	2005 $000	2006 $000	2005 $000
Petroleum and coal exploration, evaluation and development expenditure					
Accumulated expenditure brought forward		37,994	29,308	-	-
Expenditure capitalised during the year:					
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	-	-

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

		Consolidated		Parent Company	
	Note	2006 $000	2005 $000	2006 $000	2005 $000
Taxation receivable / (payable)		-	(10)	-	-
Security deposits	21	2,622	65	-	-
		2,622	55	-	-

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

14. CREDITORS

	Consolidated		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Trade creditors	9,788	2,891	1,345	794

15. PROVISIONS AND NON-CURRENT LIABILITES

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

Notes:

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

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	Fair Value	Carrying Value	Fair Value
	2006 $000	2006 $000	2005 $000	2005 $000
Consolidated				
Investments in resource companies	4,583	7,446	1,463	2,117
Security deposits	2,622	2,622	66	65
Receivables	21,264	21,264		
Parent Company				
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%
Security deposits	Various	4.0% to 7.55%
Borrowings	March 2013	Variable
All other financial instruments are non-interest bearing.		

Loan Facilities

At balance date NZOG has loan facilities of US$37.5 million available to fund the Tui development. The facilities are a Term Debt facility of US$25.0 million and a Letter of Credit facility of US$12.5 million. An additional US$2.5 million is available to fund hedging costs. 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.

(b) Consolidated and Parent

	Note	Consolidated 2006 $000	Consolidated 2005 $000	Parent Company 2006 $000	Parent Company 2005 $000
i) Income tax expense					
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
Adjusted for tax effect of:					
Permanent differences – New Zealand		(720)	836	(1,525)	(7,352)
		112	23	-	-
Consolidated from Pafule:					
Permanent differences		-	45		
Difference in foreign tax rates		-	(2)		
Income tax expense/(benefit) on operating surplus before tax items		-	66		
Tax losses not brought to account		-	37		
Income tax expense/(benefit) attributable to operating surplus/(deficit)		112	103		
Future income tax benefit (consolidated from Pafule)					
Opening balance		-	100		
Movement during the year		-	(100)		
Closing balance		-	-		
ii) Taxation losses not taken into account					
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: $4,765,007) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

18. RELATED PARTY DISCLOSURES

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

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		PPP 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	-	-
	7,471	6,210	-	-
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.

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).

Investment and advances	Consolidated		Parent Company	
	2006 $000	2005 $000	2006 $000	2005 $000
Investment in shares	2,280	2,603	2,280	2,603

(c) Control

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

(d) Financial Position and Performance of the ESOP

	[illegible]		[illegible]	
	2006 $000	2005 $000	2006 $000	2005 $000
(i) **Financial Position**				
Equity				
Share capital			2,280	2,603
Retained deficit			(223)	(416)
			2,057	2,187
Assets				
Securities:				
• Allocated	6,039	5,047	1,525	1,902
• Unallocated	146	1,288	665	404
	6,185	6,335	2,190	2,306
Less provision for diminution in value	-	-	(153)	(153)
	6,185	6,335	2,037	2,153
Bank	22	47	22	47
	6,207	6,382	2,059	2,200
Less Liabilities				
Creditors	(2)	(13)	(2)	(13)
	(2)	(13)	(2)	(13)
Net Assets	6,205	6,369	2,057	2,187
(ii) **Financial Performance**				
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.

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

		Group Interest	
	Note	2006 $000	2005 $000
Partly Owned Subsidiaries			
Pafule Pty Limited	(i)	60	60
Pike River Coal Limited	12(iii)	61	72
Associate Companies			
NZOG Nominees Limited	19	50	50

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 Pafule Pty Limited is an administration services company. PRCL is involved in the coal mining industry.

23. EARNINGS PER SHARE

	2006	2005
Basic and diluted earnings cents 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).

AUDIT REPORT

KPMG

To the Shareholders of New Zealand Oil & Gas Limited

We have audited the financial statements on pages 18 to 34. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2006. This information is stated in accordance with the accounting policies set out on pages 22 and 23.

Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Auditors' responsibilities

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

Basis of opinion

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

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

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

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

Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 18 to 34:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2006 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 29 August 2006 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

CORPORATE GOVERNANCE STATEMENT

The board of New Zealand Oil & Gas Limited recognises the need for good corporate governance practice, and keeps under review the issues relevant to a company of its size and nature.

BOARD OF DIRECTORS

The board is responsible for the overall corporate governance of the company including strategic direction, determination of policy, and the approval of significant contracts, capital and operating costs, financial arrangements and investments. The board has a formal charter whereby it has set out its functions as follows.

The number of directors is specified in the constitution as a minimum of three up to a maximum of seven. At least two directors must be persons ordinarily resident in New Zealand. Each year one-third of the directors, other than the managing director, must retire by rotation. If eligible each retiring director may offer themselves for re-election.

The board currently has a policy of having five directors, with a majority of independent non-executive directors. The board has determined that all of the existing non-executive directors are independent directors.

Director	Position	Expertise
Mr R A Radford CA(NZ)	Executive Chairman and Chief Executive	Resource company management
Prof R F Meyer ONZM, BE, PhD, DistFIPENZ	Deputy Chairman (non-executive)	Engineering and energy
Mr P G Foley BCA, LLB	(non-executive)	Legal
Mr S J Rawson BSc, MSc	(non-executive)	Energy and trading
Mr D R Scoffham MA, MSc	(non-executive)	Worldwide oil and and gas exploration

Each director has the right to seek independent professional advice in relation to matters arising in the conduct of his duties, at the company's expense, subject to prior approval of the chairman of the audit committee, which is not to be unreasonably withheld.

Because of the compact size of the board there is no formally constituted nomination committee. The board as a whole undertakes the responsibility for the appointment of directors, benefiting from the contribution of all its members in discussing the need for and identifying any new candidates for the board. The board aims to have a reasonable diversity of backgrounds and skills within its ranks as is relevant to the nature of the company's activities, and from time to time reviews its committees and their charters.

The board evaluates its effectiveness as a whole, and the performance and contributions of its individuals and its committees as to attendance, preparedness, participation, and candour, on an annual basis. The board has regular meetings, scheduled on a monthly basis, and holds other meetings as required. Mr Radford is a founding executive director of the company. The board considers that Mr Radford's responsibilities as chief executive are fully compatible with leadership of the board and facilitation of the effective contributions of all directors and that the company benefits from Mr Radford's experience in these roles. The board has elected a deputy chairman, Prof. R F Meyer, who also chairs the remuneration and audit committees of the board, thus ensuring a spread of key responsibilities. The chief executive is not a member of those committees.

RESPONSIBILITIES OF THE BOARD

The board operates under the powers provided in the company's constitution, the Companies Act, and generally by law.

Specific responsibilities of the board include:

- approving corporate strategy, and performance objectives
- establishing policies appropriate for the company
- oversight of the company, including its control and accountability systems
- approving major investments and monitoring the return of those investments
- evaluating the performance of the chief executive
- setting broad remuneration policy including approving allocations under the company's employee share ownership plan
- reviewing senior management's performance and implementation of strategy, and ensuring appropriate resources are available
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance
- approving and monitoring financial and other reporting
- ensuring that the company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the company's prospects
- overall corporate governance of the consolidated entity.

Responsibility for the conduct of the company's business is delegated to management.

The board has delegated limits of authority which define matters delegated to management and those requiring board approval.

The board has overall responsibility for the company's system of risk management and internal control, and has established procedures designed to provide effective control within the management and reporting structure. Management representations with respect to half-year and annual financial reporting provide accountability on disclosures and financial results.

The board has established several formal policies for management, which include:

- securities trading policy
- funds investment policy
- health, safety and environment policy.

These policies are reviewed on a regular basis. The board may establish other policies and practices to ensure it fulfills its functions and remains an effective decision making body.

BOARD COMMITTEES

The board has two formally constituted committees to provide specialist assistance with defined aspects of governance; the audit committee and the remuneration committee. Each committee is comprised of three non-executive directors and has a written charter setting out its respective roles and responsibilities.

The audit committee is required to contain one member with an accounting or financial background. The board has determined that Mr P G Foley has the requisite financial background for this requirement.

The members of the audit committee are Prof. R F Meyer (chairman), Mr D R Scoffham, and Mr P G Foley. The committee is responsible to the board for overseeing the financial control, financial reporting, and audit practices of the company. Meetings are held at least twice a year, and at the discretion of the committee the external auditors, the chief executive, and other senior executives attend these meetings.

The members of the remuneration committee are Prof. R F Meyer (chairman), Mr P G Foley, and Mr S J Rawson. Meetings are held at least twice a year. The committee is responsible to the board for recommending the remuneration policies and packages for the chief executive and senior executives, including allocations under the employee share ownership plan and amendments to plan rules. The committee operates independently of management.

The audit committee and remuneration committee charters setting out roles and responsibilities are available on the company's website at www.nzog.net.

SHAREHOLDER REPORTING

The company complies with the continuous disclosure and other listing requirements of the NZX and ASX relating to shareholder reporting. The company provides security holders with interim and annual reports, which are also posted on the company's website. Shareholders and interested parties can subscribe to enquiries@nzog.net to receive the company's market announcements by email.

CONDUCT

Compliance with legislative requirements and acting with a high level of integrity has always been expected of all directors and employees. The company has formalised its policy on business ethics. This policy records the existing high standards of ethical conduct which all directors and employees are to comply with, and addresses such matters as:

- conflicts of interest
- corporate opportunities
- confidentiality, receipt and use of corporate information
- fair dealing
- protection of and proper use of company assets
- compliance with laws and regulations
- a general obligation to act honestly and in the best interests of the company as required by law
- encouraging the reporting of unlawful or unethical behaviour.

The code of business conduct and ethics is available on the company's website.

The board has a securities trading policy which sets out procedures as to when and how an employee or director can deal in company securities. This policy is consistent with the Securities Markets Act and its insider trading procedures and complies with the NZX and ASX rules.

The company maintains an interests register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving directors. Information from this register in respect of the year ended 30 June 2006 is reported in page 40 of this annual report.

HEALTH, SAFETY AND ENVIRONMENT POLICY

The company's health, safety and environment policy is that the company's board, management and employees are committed to providing a safe and healthy workplace and environment for all employees, authorised visitors and general public:

- through competent engineering practice, training, risk identification, assessment and control process, the company addresses hazard, incident and injury prevention and conservation of the environment in respect of projects under the company's management;
- appropriate resources are made available to comply with all relevant legislation to ensure that safety in design, safe systems and places of work are maintained to high standards and that all reasonable steps are taken to ensure no individual or the environment is placed in a situation of endangerment;
- a safe environment is the individual and shared responsibility of the company and all its employees;
- this OSH&E management policy is based on a commitment that the well-being of all associated personnel is a major consideration of all operations.

INDEPENDENT DIRECTORS

The board has determined in terms of NZX listing rules that as at 30 June 2006 Prof. R F Meyer, Mr P G Foley, Mr S J Rawson, and Mr D R Scoffham are independent directors; and that Mr R A Radford is not an independent director.

CORPORATE GOVERNANCE BEST PRACTICE CODES

The company complies with the NZX and ASX Best Practice recommendations, excepting in the areas set out below. Further details are contained in the company's Corporate Governance Statement on pages 36 and 37.

[illegible]	[illegible]	[illegible]
Roles of chairperson and chief executive should not be exercised by the same individual	Roles of chairperson and chief executive should not be exercised by the same individual	Refer to Corporate Governance Statement
Establish a board nomination committee (unless constrained by size)	Establish a board nomination committee	NZOG benefits from having the whole board involved in the selection process for any board members
Have formal and transparent methods for the nomination & appointment of directors		NZOG is too small to benefit from this recommendation
	Written policies to ensure compliance with ASX listing rules disclosure requirements	NZOG is considered too small to benefit from a written policy
Directors encouraged to take a portion of their remuneration under a performance-based equity plan; or re-investment in equity securities of the company		A proposed allocation of share options to NZOG directors is to be considered at a future meeting of shareholders
	Establish a code of conduct to guide obligations to legitimate stakeholders	NZOG is too small to benefit from a formal code
	Chairperson should be an independent director	Refer to Corporate Governance Statement

SHAREHOLDER INFORMATION

[illegible]

Name of Shareholder	Shareholding	% of reported capital*
Resources Trust Limited	11,068,325	5.16
Accident Compensation Corporation	10,481,410	4.89
Westpac Banking Corporation - client assets no 2	8,236,934	3.84
NZOG Nominees Limited	5,896,347	2.75
Sik-on Chow	4,740,000	2.21
National Nominees Limited	3,068,736	1.43
Kum Hing So	2,802,318	1.31
New Plymouth District Council	2,228,853	1.04
Leveraged Equities Finance Limited	2,247,400	1.05
Macquarie Equities Custodians Limited	2,200,000	1.03
First NZ Capital Custodians Limited	1,973,256	0.92
Charles Elwyn Boreham & Denise Phyllis Boreham	1,719,464	0.80
Citibank Nominees (New Zealand) Limited	1,626,167	0.76
Robert Albert Boas	1,384,967	0.65
Chung King Tan	1,360,000	0.64
Oxley Graeme Maley	1,231,152	0.57
Ming Chow & Fook Kim Wong	1,200,000	0.56
Peter Edward Radford	1,182,122	0.55
ANZ Nominees Limited	1,167,638	0.54
Westpac Nominees (NZ) Limited	1,073,012	0.50
Held in Treasury:		
New Zealand Oil & Gas Limited	5,864,515	

* Reported capital represents shares held by the public and therefore excludes 5,864,515 shares held by NZOG as treasury stock.
In the above table, the holdings of New Zealand Central Securities Depository Limited have been reallocated to its applicable members.

Top 20 Option Holders on the Register as at 25 August 2006

Name of Option Holder	Options	% of 2008 Options on issue
Accident Compensation Corporation	3,891,374	3.63
Charles Brian Kidson	3,000,000	2.80
Roy Anthony Radford	2,979,954	2.78
First NZ Capital Custodians Limited	2,138,218	2.00
Ka Fu Tse & Lai Na Linda Tse Chan	1,700,000	1.59
Macquarie Equities Custodians Limited	1,100,000	1.03
Robert Albert Boas	912,500	0.85
Leveraged Equities Finance Limited	886,000	0.83
Charles Elwyn Boreham & Denise Phyllis Boreham	859,742	0.80
Petrus Fredrikus Maria Belt & Anna Maria Catharina Belt	800,000	0.75
David Maurice Hodson	696,750	0.65
Philip George Lennon	690,015	0.64
Chung King Tan	690,000	0.64
ANZ Nominees Limited	686,370	0.64
Westpac Banking Corporation - client assets no 2	662,606	0.62
Fulcrum Securities Limited	657,348	0.61
Andrew Trott Hopkins & Adrienne Janet Hopkins	620,000	0.58
Oxley Graeme Maley	615,576	0.57
Peter Edward Radford	591,061	0.55
John Kenneth Giffney & Rosalind Anne Giffney	550,000	0.51

DISTRIBUTION OF LISTED HOLDINGS

Ordinary shares as at 25 August 2006

A minimum holding is 500 NZOG shares or more based on market prices applying on 26 August 2006. At that date there were 289 shareholders with less than 500 shares.

Holding	No. of Shareholders	Total Shares
1-1,000	3,143	2,167,765
1,001-5,000	4,546	12,045,852
5,001-10,000	1,603	12,769,083
10,001-100,000	2,070	61,053,569
100,001 plus	239	132,208,135
Totals	11,601	220,244,404

2008 Options as at 25 August 2006

Holding	No. of Option Holders	Total Options
1-1,000	4,942	2,537,645
1,001-5,000	3,764	9,631,273
5,001-10,000	910	6,940,824
10,001-100,000	1,187	33,273,221
100,001 plus	168	54,703,424
Totals	10,971	107,086,387

SECURITIES ON ISSUE

At 30 June 2006 New Zealand Oil & Gas Limited had the following securities on issue:

Reported Capital	214,378,727
Treasury Stock	5,864,515
Total Ordinary Shares on issue	220,243,242

2008 Listed Options	107,097,549
Unlisted 2007 Options	150,000

VOTING RIGHTS

Article 26 of the company's constitution provides that on a show of hands every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each ordinary share held.

ON-MARKET BUY-BACK

The company is not involved in an on-market buy-back.

TRADING STATISTICS

The company's securities are officially quoted on the New Zealand Exchange and the Australian Stock Exchange.

TRADING – 12 MONTHS ENDED 30 JUNE 2006

Ordinary Shares: Trading Code NZX and ASX: NZO

NZX:	NZ$1.11	NZ$0.80
ASX:	A$1.04	A$0.73
Combined Volume Shares		68,692,045

2008 Options: Trading Code NZX: NZOOD ASX: NZOO

NZX:	NZ$0.19	NZ$0.08
ASX:	A$0.17	A$0.08
Combined Volume Options		48,207,500

STATUTORY AND OTHER INFORMATION

DIRECTORS' REMUNERATION

The total remuneration and other benefits to directors for services to all group companies (including payments made by partly owned and wholly owned subsidiary companies) in all capacities during the year ended 30 June 2006 was $845,646 being to or in respect of Messrs R A Radford $656,250 ($226,250 relating to the 2001, 2002 and 2003 financial years); S J Rawson $54,396; P G Foley $35,000; Prof. R F Meyer $65,000 and D R Scoffham $35,000.

EMPLOYEES' REMUNERATION

During the year ended 30 June 2006, 5 group employees (not including directors) received remuneration (including payments made by partly owned and wholly owned subsidiary companies) of at least $100,000, one employee being in each of the following income bands: $100,000-$109,999; $130,000-$139,999; $150,000-$159,999; $240,000-$249,999; $280,000-$289,999.

DIRECTORS' SECURITIES INTERESTS AND DEALINGS

The interests of directors in equity securities of the company at 30 June 2006 were:

Mr R A Radford in respect of 5,959,909 shares and 2,979,955 options.

Mr P G Foley in respect of 50,000 shares and 25,000 options.

Mr D R Scoffham in respect of 100,000 shares and 50,000 options.

ACQUISITION/DISPOSITION OF RELEVANT INTERESTS IN SECURITIES OF THE COMPANY

During the year Mr Foley as a shareholder received an entitlement to 25,000 options; Mr Scoffham as a shareholder received an entitlement to 50,000 options; and Mr Radford as a shareholder received an entitlement to 2,979,955 options, and was awarded 1,000,000 NZOG shares through the ESOP plan.

TRANSACTIONS IN WHICH DIRECTORS WERE INTERESTED

There were no transactions in which directors were interested during the year ended 30 June 2006.

INTEREST DISCLOSURES

There were no new disclosures of interest by directors entered into the Interests Register during the year ended 30 June 2006.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

The company and its subsidiaries have arranged policies of directors' and officers' liability insurance, which, together with a deed of indemnity, seek to ensure to the extent permitted by law that directors and officers will incur no monetary loss as a result of actions legitimately taken by them as directors and officers.

SUBSTANTIAL SHAREHOLDERS

Substantial Shareholder Notices as at 25 August 2006

New Zealand Oil & Gas Limited*	12,018,189
Resources Trust Limited	11,068,325
Total Issued Capital**	**220,244,404**

* This incorporated NZOG's treasury stock and NZOG Nominees Limited shareholding.

** Total issued capital includes treasury stock.

Substantial shareholder notices are received pursuant to the Securities Markets Act 1988. Under the provisions of that Act substantial shareholders are only required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities; and more than one party can hold a relevant interest in the same shares. For those reasons the number of shares stated in substantial shareholder notices can differ from the numbers currently showing in the share register.

NZOG GROUP

Within this annual report reference to NZOG, NZ Oil & Gas and the company are to be read as inclusive of the subsidiary companies within the consolidated group.

ENERGY VALUES

1,000 standard cubic feet of gas yields approximately 1 gigajoule of heat.

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

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

1 kilotonne (kt) = 1000 tonnes.

Gas energy values vary depending on the carbon dioxide, other inert gas and C2+ content of the gas, so is not fixed. Energy levels for Taranaki gas are generally around the above levels. For field reserve estimates where the gas quality is known, reserves can be accurately stated in PJ. For prospects where the gas quality is not known, the BCF volume is estimated and the above assumptions are applied in order to use consistent units of PJ. Calorific value is the basis for gas sales in dollars per gigajoule or GJ.

CURRENCY

All amounts are New Zealand dollars unless otherwise specified. Conversions are based on a USD:NZD exchange rate of 0.6114 at 30 June 2006.

TARGET PRODUCTION DATES AND CONSTRUCTION COSTS

Oil, gas and coal developments are subject to potential delays and/or increased costs due to their nature and also due to the overheated construction market currently being experienced by all participants.

OIL PRICES

All quoted and forecast oil prices are for WTI crude.

CORPORATE DIRECTORY

DIRECTORS

R A Radford
CA (NZ)
Executive Chairman and Chief Executive

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

P G Foley
BCA, LLB

S J Rawson
BSc, MSc

D R Scoffham
MA, MSc

MANAGEMENT

Gordon Ward
BBS, CA (NZ)
General Manager

Stefan Kleffmann
PhD
Manager Geophysics

Helen Mackay
BCA, LLB
General Counsel

Jonathan Salo
PhD
Senior Manager Geology

Andrew Stewart
MBA, BCA, BA, CA (NZ)
Manager Accounting and Compliance

CONSULTANTS

Paul Ettema
BE (Hons)
Engineering Advisor

Brian Roulston
CA (NZ)
Corporate Services Consultant

PIKE RIVER COAL LIMITED MANAGEMENT

Peter Whittall
MBA, BE (Mining - Hons) (Australia)
General Manager, Mines

Sandra Scott
BCA, CA (NZ)
Financial Controller

Les McCracken
(BCE Mining-Hons)
Project Manager

REGISTERED AND HEAD OFFICE

Level 20
125 The Terrace
PO Box 10725
Wellington, 6011
New Zealand
Telephone +64 4 495 2424
Facsimile +64 4 495 2422
Email: enquiries@nzog.net

AUDITORS

KPMG
KPMG Centre
135 Victoria Street
Wellington, 6011
New Zealand

SHAREHOLDER INFORMATION

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

NEW ZEALAND

Link Market Services Limited
PO Box 384
Ashburton
New Zealand
Telephone +64 3 308 8887
Facsimile +64 3 308 1311

AUSTRALIA

Registries Limited
PO Box R67
Royal Exchange
Sydney, NSW, 1223 Australia
Telephone +61 2 9290 9600
Facsimile +61 2 9279 0664

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

Shareholders are encouraged to receive company announcements directly via the internet at: **www.nzog.net** www.nzog.net

E-mail enquiries: [illegible]