NEW ZEALAND OIL & GAS LIMITED
NZ Reg. Coy. No. 037842 *ARBN 003 064 962* *www.nzog.com*
Results for announcement to the market

Reporting Period	12 months to 30 June 2016
Previous Reporting Period	6 months to 31 December 2015
Comparative Reporting Period	12 months to 30 June 2015

	Amount (NZ$ 000s)		Increase / (decrease)
	12 months to 30 June 2016	12 months to 30 June 2015	%
Revenue from ordinary activities	119,028	116,235	2%
Surplus / (deficit) from ordinary activities after tax attributable to security holders	(29,763)	(14,394)	N/A
Net profit / (loss) attributable to security holders	(29,763)	(14,394)	N/A
	NZ$	NZ$	%
Net Tangible Assets per share	0.59	0.76	(22%)

Interim/Final Dividend	Amount per security	Imputed amount per security
Final Dividend	4 cents	Fully imputed at 1.556 cents

Record Date	11 October 2016
Dividend Payment Date	25 October 2016

Comments:

Reviewed Financial Statements

Accompanying this announcement are the company's audited consolidated financial statements for the year ended 30 June 2016; prepared in accordance with generally accepted accounting practice and giving a true and fair view of the financial position and performance of the company. The comparative period figures have been restated following a voluntary change in accounting policy in December 2015.

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

The Directors propose that a final fully imputed dividend of 4 cents per share will be paid this year.

Dividend Reinvestment Plan

The Board has determined that the Dividend Reinvestment Plan will not apply to this dividend and future dividends, until advised otherwise.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2016

Consolidated Statement of Cash Flows

For the year ended 30 June 2016

	Notes	2016 $000	2015 $000
Cash flows from operating activities			
Receipts from customers		**136,840**	120,578
Production and marketing expenditure		**(46,082)**	(31,925)
Supplier and employee payments (inclusive of GST)		**(21,304)**	(19,792)
Income taxes paid		**(11,827)**	(5,982)
Royalties paid		**(6,349)**	(6,944)
Other		**4,917**	3,336
Net cash inflow from operating activities		**56,195**	59,271
Cash flows from investing activities			
Sale of shares in Pan Pacific Petroleum NL		**-**	4,708
Exploration and evaluation expenditure		**(23,466)**	(31,870)
Oil and gas asset expenditure		**(11,508)**	(19,256)
Acquisition of subsidiary, net of cash acquired		**-**	(4,229)
Purchase of oil and gas interest		**-**	(2,759)
Property, plant and equipment expenditure		**(170)**	(609)
Loan repayment from related entity		**-**	1,446
Net cash outflow from investing activities		**(35,144)**	(52,569)
Net cash inflow from operating and investing activities		**21,051**	6,702
Cash flows from financing activities			
Issue of shares		**78**	-
Repayment of capital/cancellation of shares		**(1,046)**	(63,163)
Sale of forfeited shares		**-**	927
Dividends paid		**-**	(8,895)
Other		**(77)**	(71)
Net cash outflow from financing activities		**(1,045)**	(71,202)
Net increase/(decrease) in cash and cash equivalents		**20,006**	(64,500)
Cash and cash equivalents at the beginning of period		**83,659**	135,075
Exchange rate effects on cash and cash equivalents		**(6,854)**	13,084
Cash and cash equivalents at end of the year		**96,811**	83,659

Reconciliation of loss for the year to net cash inflow from operating activities

	2016 $000	2015* $000
Loss for the year	**(51,794)**	(15,474)
Depreciation and amortisation	**49,450**	40,095
Deferred tax	**(8,035)**	(16,233)
Reversal of impairment of loan	**-**	(1,446)
Exploration expenditure included in investing activities	**21,504**	24,083
Asset impairment	**26,605**	36,300
Gain on purchase of subsidiary	**-**	(15,357)
Net foreign exchange differences	**2,469**	(1,433)
Unwind of discount on provision	**1,689**	2,832
Discontinued operations – non cash portion of loss	**1,437**	-
Stock movement	**2,802**	-
Other	**468**	1,079
Change in operating assets and liabilities		
Movement in trade debtors	**16,422**	2,795
Movement in trade creditors	**(8,849)**	(4,575)
Movement in inventory	**2,477**	1,538
Movement in tax payable	**(450)**	5,067
Net cash inflow from operating activities	**56,195**	59,271

The notes to the financial statements are an integral part of these financial statements
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2016

	Notes	**2016 $000**	2015* $000
Revenue	5	**119,028**	116,235
Operating costs	6	**(48,252)**	(36,884)
Exploration and evaluation expenditure		**(21,504)**	(24,083)
Other income	5	**6,628**	17,862
Other expenses	7	**(17,581)**	(13,934)
Results from operating activities excluding amortisation, impairment and net finance		**38,319**	59,196
Amortisation of production assets		**(48,944)**	(39,639)
Asset impairment	16	**(26,605)**	(36,300)
Net finance (costs)/income	8	**(3,807)**	2,895
Loss before income tax and royalties		**(41,037)**	(13,848)
Income tax (expense)/credit	9	**(3,422)**	5,032
Royalties expense	10	**(4,017)**	(6,658)
Loss for the year from continuing operations		**(48,476)**	(15,474)
Loss after tax from discontinuing operations	24	**(3,318)**	-
Loss for the year		**(51,794)**	(15,474)
Loss for the year attributable to:			
Loss attributable to shareholders		**(29,763)**	(14,394)
Loss attributable to non-controlling interest		**(22,031)**	(1,080)
Loss for the year		**(51,794)**	(15,474)
Other comprehensive loss:			
Items that will not be reclassified to profit or loss			
Fair value loss through other comprehensive income		**-**	(3,652)
Items that may be classified to profit or loss			
Foreign currency translation differences		**(7,967)**	26,695
Total other comprehensive (loss)/income for the year		**(59,761)**	7,569
Total comprehensive loss for the year is attributable to:			
Equity holders of the Group		**(35,942)**	8,649
Non-controlling interest		**(23,819)**	(1,080)
Total comprehensive (loss)/income for the year		**(59,761)**	7,569
Total comprehensive (loss)/income for the year is attributable to:			
Continuing operations		**(56,443)**	7,569
Discontinuing operations		**(1,277)**	-
Discontinuing operations - non-controlling interest		**(2,041)**	-
Total comprehensive (loss)/income for the year		**(59,761)**	7,569
Loss per share			
Basic and diluted (cents per share)	23	**(8.6)**	(3.5)

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Consolidated Statement of Financial Position

As at 30 June 2016

	Notes	**2016 $000**	2015* $000
Assets			
Current assets			
Cash and cash equivalents	11	**96,811**	83,659
Receivables and prepayments	12	**13,156**	29,579
Inventories		**9,166**	8,842
Assets held for sale	24	**2,088**	-
Total current assets		**121,221**	122,080
Non-current assets			
Evaluation and exploration assets	15	**14,580**	15,258
Oil and gas assets	16	**207,937**	289,356
Property, plant and equipment		**193**	277
Other intangible assets		**1,042**	1,449
Other financial assets	17	**1,891**	1,960
Total non-current assets		**225,643**	308,300
Total assets		**346,864**	430,380
Liabilities			
Current liabilities			
Payables	18	**17,399**	31,415
Current tax liabilities		**3,175**	3,625
Rehabilitation provision	19	**1,548**	-
Total current liabilities		**22,122**	35,040
Non-current liabilities			
Borrowings		**1,137**	1,001
Rehabilitation provision	19	**77,458**	78,930
Other provisions	20	**6,350**	6,864
Deferred tax liability	9	**18,597**	26,706
Total non-current liabilities		**103,542**	113,501
Total liabilities		**125,664**	148,541
Net assets		**221,200**	281,839
Equity			
Share capital	21	**318,089**	319,060
Reserves	22	**1,051**	(1,563)
Retained earnings		**(111,382)**	(71,131)
Attributable to shareholders of the Group		**207,758**	246,366
Non-controlling interest in subsidiaries		**13,442**	35,473
Total equity		**221,200**	281,839
Net asset backing per share (cents per share)		**64**	82
Net tangible asset backing per share (cents per share)		**59**	76

Authorised on behalf of the New Zealand Oil & Gas Limited Board of Directors on 23 August 2016:

Rodger Finlay
Chairman

Mark Tume
Director

The notes to the financial statements are an integral part of these financial statements
* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2016

	Issued capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
	$000	$000	$000	$000	$000	$000
Balance as at 1 July 2015*	**319,060**	**(1,563)**	**(71,131)**	**246,366**	**35,473**	**281,839**
Comprehensive income						
Loss for the year			**(29,763)**	**(29,763)**	**(22,031)**	**(51,794)**
Other comprehensive income, net of tax						
Foreign currency translation differences		**(7,967)**		**(7,967)**		**(7,967)**
Total comprehensive income	**-**	**(7,967)**	**(29,763)**	**(37,730)**	**(22,031)**	**(59,761)**
Transactions with shareholders of the Group						
Shares issued	**68**			**68**		**68**
Buy back of issued shares	**(1,046)**			**(1,046)**		**(1,046)**
Partly paid shares issued	**7**			**7**		**7**
Share based payment		**93**		**93**		**93**
Transfer of expired share based payments		**(46)**	**46**	**-**		**-**
Asset revaluation reserve transferred to retained earnings		**10,534**	**(10,534)**	**-**		**-**
Balance as at 30 June 2016	**318,089**	**1,051**	**(111,382)**	**207,758**	**13,442**	**221,200**

	Issued capital	Reserves	Retained Earnings	Total Equity	Non-controlling interest	Total Equity
	$000	$000	$000	$000	$000	$000
Balance as at 1 July 2014*	377,662	(24,620)	(44,302)	308,740	-	308,740
Comprehensive income						
Loss for the year	-	-	(14,394)	(14,394)	(1,080)	(15,474)
Other comprehensive income, net of tax						
Fair value loss through other comprehensive income	-	(3,652)		(3,652)	-	(3,652)
Foreign currency translation differences	-	26,695	-	26,695	-	26,695
Total comprehensive income	-	23,043	(14,394)	8,649	(1,080)	7,569
Transactions with shareholders of the Group						
Non-controlling interest arising on acquisition of subsidiary	-	-	-	-	36,553	36,553
Shares issued/(cancelled)	4,560	-	-	4,560	-	4,560
Buy back of issued shares	(63,163)	-	-	(63,163)	-	(63,163)
Partly paid shares issued	1	-	-	1	-	1
Share based payment	-	72	-	72	-	72
Transfer of expired share based payments	-	(58)	58	-	-	-
Dividends paid (3 cents per ordinary share)	-	-	(12,493)	(12,493)	-	(12,493)
Balance as at 30 June 2015 *	319,060	(1,563)	(71,131)	246,366	35,473	281,839

The notes to the financial statements are an integral part of these financial statements.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

1. Basis of accounting

Reporting entity
New Zealand Oil & Gas Limited (the Group) is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The Group is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013. The financial statements presented are for New Zealand Oil & Gas Limited, its subsidiaries and interests in associates and jointly controlled operations (together referred to as the “Group”).

Basis of preparation
The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (‘NZ GAAP’) and the Financial Reporting Act 2013. They comply with the NZ equivalents to International Financial Reporting Standards (‘NZ IFRS’) as appropriate for profit-oriented entities, and with International Financial Reporting Standards (‘IFRS’).

The functional and reporting currency used in the preparation of the financial statements is New Zealand dollars (NZD or $) rounded to the nearest thousand unless otherwise stated. The financial statements are prepared on a goods and services tax (GST) exclusive basis except billed receivables and payables which include GST.

These financial statements are prepared on the basis of historical cost except where otherwise stated in specific accounting policies contained in the accompanying notes.

Basis of consolidation
Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. Intra-group balances, transactions, unrealised income or expenses arising from intra-group transactions and dividends are eliminated in preparing the Group financial statements. A list of subsidiaries and associates is shown in notes 13 and 14.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in the statement of comprehensive income and held in equity reserves as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equities classified as fair value through other comprehensive income, are included in the statement of comprehensive income and held in the fair value reserves in equity.

2. Critical accounting estimates and judgements

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

The estimates and assumptions that have the most significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to:

- **recoverability of evaluation and exploration assets and oil and gas assets**. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 15, 16 and 25(a)(ii)).

- **provision for rehabilitation obligations** includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 19).

- **recoverability of deferred tax asset.** Assessment of the ability of entities in the Group to generate future taxable income (refer to note 9).

3. Changes in accounting policies

The Group elected to switch from full cost to successful efforts method of accounting at 31 December 2015 for its investments in oil and gas exploration assets. The successful efforts method is an alternative method of accounting for exploration and evaluation costs in the energy industry. Under the successful efforts method, all general exploration and evaluation costs are expensed as incurred, except the direct costs of acquiring the right to explore, drilling exploratory wells and evaluating the results of drilling. Only the costs of successful exploration wells are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

The Group believes that, with its increased focus on development and production activities and post the Cue Energy Resources Limited ("Cue") acquisition, the successful efforts method of accounting provides transparency of costs in the profit or loss for the period in which exploration activities are undertaken or subsequently the realisation of assets post any discovery. As a result, the Group believes that the change in accounting method was appropriate.

The change in accounting method constituted a "Change in Accounting Principle," which required that prior period financial statements be restated to reflect the results and balances that would have been reported had the Company been following the successful efforts method of accounting from its inception. The cumulative effect of the change in accounting method since 30 June 2014 is set out in the tables below:

	Full Year 30 June 2015	Full Year 30 June 2014
Increase in exploration and evaluation costs expensed	8,521	-
Increase in income tax expense	791	-
Increase in loss for the year	9,312	-
Decrease in exploration asset	(54,956)	(43,084)
Decrease in deferred tax liability	8,894	9,685
Decrease/(increase) in FCTR	2,405	(946)
Decrease in retained earnings	42,644	34,345
Decrease in non-controlling interest	1,013	-
cents per share		
Decrease in earnings per share	(2.0)	(4.2)
Decrease in net asset per share	(13)	(8)
Increase in net tangible asset per share	2	2

Adoption status of relevant new financial reporting standards and interpretations
Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 July 2016 but which the company has not early adopted.

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 9 Financial Instruments

The impact of these accounting standards is currently being assessed.

4. Segment information

All operating segments' operating results are reviewed regularly by the Group's chief executive officer (CEO), the entity's chief decision maker, and have discrete financial information available. Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.
The following summaries describe the activities within each of the reportable operating segments:

Tui area oil field: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand.

Kupe oil and gas field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand.

Oil & gas exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand and in Indonesia.

Cue Energy Resources Limited (Cue): the Group acquired a controlling interest in Cue during the 2015 financial year and have consolidated performance for the last three months of that year. Management have treated this as a separate operating segment.

2016	Tui oil	Kupe oil & gas	Oil & gas exploration	Other & unallocated	Cue Energy Resources Ltd	Total
	$000	$000	$000	$000	$000	$000
Sales to external customers - NZ	**7,218**	**40,551**	**-**	**-**	**29,854**	**77,623**
Sales to external customers - other countries	**12,328**	**9,385**	**-**	**-**	**19,692**	**41,405**
Total sales revenue	**19,546**	**49,936**	**-**		**49,546**	**119,028**
Other income	**-**	**2,367**	**-**	**181**	**4,080**	**6,628**
Total revenue and other income	**19,546**	**52,303**	**-**	**181**	**53,626**	**125,656**
Impairment of oil and gas assets	**-**	**-**	**-**	**-**	**(26,605)**	**(26,605)**
Segment result	**(11,422)**	**18,589**	**(4,044)**	**(8,424)**	**(31,929)**	**(37,230)**
Other net finance costs						**(3,807)**
Loss before income tax and royalties						**(41,037)**
Income tax and royalties expense						**(7,439)**
Loss for the year from continuing operations						**(48,476)**
Loss after tax from discontinuing operations	**-**	**-**	**-**	**-**	**(3,318)**	**(3,318)**
Loss for the year						**(51,794)**
Segment assets	**27,274**	**133,236**	**17,084**	**-**	**47,427**	**225,021**
Assets held for sale	**-**	**-**	**-**	**-**	**2,088**	**2,088**
Unallocated assets						**119,755**
Total assets						**346,864**
Included in segment results:						
Depreciation and amortisation expense	**13,895**	**21,176**	**-**	**469**	**13,910**	**49,450**

Segment information (continued)

2015*	Tui oil	Kupe oil & gas	Oil & gas exploration	Other & unallocated	Cue Energy Resources Ltd	Total
	$000	$000	$000	$000	$000	$000
Sales to external customers - NZ	-	42,903	-	-	-	42,903
Sales to external customers - other countries	42,655	19,582	-	-	11,095	73,332
Total sales revenue	42,655	62,485	-	-	11,095	116,235
Gain on purchase of subsidiary	-	-	-	15,357	-	15,357
Other income	-	2,183	-	322	-	2,505
Total revenue and other income	42,655	64,668	-	15,679	11,095	134,097
Impairment of oil and gas assets	(36,300)			-	-	(36,300)
Segment result	(28,860)	29,881	(24,083)	3,956	2,363	(16,743)
Other net finance income						2,895
Loss before income tax and royalties						(13,848)
Income tax and royalties expense						(1,626)
Loss for the year						(15,474)
Segment assets	46,330	151,330	15,258	-	94,493	307,411
Unallocated assets						122,969
Total assets						430,380
Included in segment results						
Depreciation and amortisation expense	14,207	22,570	-	451	2,867	40,095

5. Revenue

Sales comprise revenue earned from the sale of petroleum products, when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer. Revenue is recognised at the fair value of the consideration received net of the amount of GST.

Royalty income is recognised on the date the Group's right to receive payment is established and the amount can be reliably measured.

	2016	2015
	$000	$000
Revenue		
Petroleum sales	**119,028**	116,235
Total revenue	**119,028**	116,235
Other income		
Insurance proceeds	**4,080**	-
Royalty income	**1,376**	1,980
Carbon emission expenditure recovered	**970**	13
Gain on purchase of subsidiary (i)	**-**	15,357
Other income	**202**	512
Total other income	**6,628**	17,862
Total income	**125,656**	134,097

(i) During 2015 New Zealand Oil & Gas Limited acquired a controlling interest in Cue Energy Resources Limited, resulting in Cue being consolidated into the Group. The acquisition resulted in a gain on purchase as the consideration paid was less than the fair value of the assets acquired, liabilities assumed and non-controlling interest recognised.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

6. Operating Costs

	2016 $000	2015 $000
Production and sales marketing costs	**43,292**	32,903
Carbon emission expenditure	**1,542**	465
Insurance expenditure	**1,675**	1,979
Movement in inventory	**1,703**	2,322
Movement in stock over/(under) lift	**40**	(785)
Total operating costs	**48,252**	36,884

Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in profit or loss.

7. Other expenses

	2016 $000	2015 $000
Classification of other expenses by nature		
Audit fees paid to the Group auditor - KPMG	**138**	153
Audit fees paid to other auditors - BDO	**106**	93
Directors' fees	**1,228**	699
Legal fees	**533**	618
Consultants' fees	**739**	1,942
Employee expenses (i)	**9,853**	6,260
Depreciation	**100**	87
Amortisation of intangible assets	**407**	369
Share based payment expense	**93**	72
IT and software expenses	**962**	858
Donations	**-**	-
Pre-permit expenditure	**548**	462
Registry and stock exchange fees	**320**	410
Other	**2,554**	1,911
Total other expenses	**17,581**	13,934

(i) Employee expenses are net of $3.1 million (2015: $2.6 million) recharged to exploration and evaluation expense and recharged to operated joint ventures.

	2016 $000	2015 $000
Fees paid to the Group auditor		
Audit and review of financial statements	**138**	153
Non audit related services:		
Tax compliance services	**157**	109
Tax advisory services	**90**	298
Other assurance services	**-**	33
Total fees paid to Group auditor	**385**	593

7. Other expenses (continued)

	2016 $000	2015 $000
Fees paid to the other auditors (for the year) - BDO		
Audit and review of subsidiary financial statements	**106**	93
Non audit related services:		
Tax compliance services	**22**	15
Tax advisory services	**122**	-
Other assurance services	**-**	1
Total fees paid to other auditors	**250**	109

8. Net finance income and costs

	2016 $000	2015 $000
Finance costs		
Interest and finance charges	**(341)**	(119)
Unwinding of discount on provisions	**(1,689)**	(2,832)
Exchange losses on foreign currency balances	**(2,501)**	-
Total finance costs	**(4,531)**	(2,951)
Finance income		
Interest income	**699**	2,967
Exchange gains on foreign currency balances	**-**	1,433
Reversal of impairment of loan to related entities	**25**	1,446
Total finance income	**724**	5,846
Net finance (costs)/income	**(3,807)**	2,895

9. Taxation

Current and deferred tax is calculated on the basis of the laws enacted or substantively enacted at balance date.

Current tax is the expected tax payable on the taxable income for the year and any adjustment to tax payable in respect of previous years.

Current and deferred tax are recognised in profit or loss except when the tax relates to items recognised in other comprehensive income, in which case the tax is also recognised in other comprehensive income.

	2016	2015*
	$000	$000
(a) Income tax expense		
Current tax	**11,421**	11,201
Deferred tax	**(7,999)**	(16,233)
Total income tax expense/(credit)	**3,422**	(5,032)
(b) Income tax expense calculation		
Loss before income tax expense and royalties	**(41,037)**	(13,848)
Less: royalties expense	**(4,017)**	(6,658)
Loss before income tax expense	**(45,054)**	(20,506)
Tax at the New Zealand tax rate of 28%	**(12,615)**	(5,742)
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	**2,510**	35
Non-deductible write off	**256**	988
Gain on purchase of subsidiary	**-**	(4,300)
Foreign exchange adjustments	**-**	866
Unrealised timing differences	**10,506**	2,386
Other expenses/(income)	**97**	(344)
	754	(6,111)
Under provision in prior years	**2,668**	1,079
Income tax expense/(credit)	**3,422**	(5,032)
(c) Imputation credits available for subsequent reporting periods	**15,025**	8,843

(d) Deferred tax

Deferred taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets and future tax benefits are recognised where realisation of the asset is probable. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse.

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences. As at 30 June 2016 Cue have accumulated losses in New Zealand of $26.8 million (30 June 2015: $21.0 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to Cue satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

9. Taxation (continued)

	2016	2015*
	$000	$000
The balance comprises temporary differences attributable to:		
Non-deductible provisions	**18,542**	22,195
Tax losses	**-**	5,875
	18,542	28,070
Other		
Exploration assets	**(186)**	(186)
Oil & gas assets	**(36,953)**	(53,060)
Other items	**-**	(1,530)
Sub-total other	**(37,139)**	(54,776)
Net deferred tax liabilities	**(18,597)**	(26,706)
Movements:		
Net deferred tax liability at 1 July	**(26,706)**	(34,822)
Recognised on acquisition	**-**	(4,924)
Recognised in profit or loss	**7,999**	16,233
Recognised in other comprehensive income	**110**	(3,193)
Closing balance at 30 June	**(18,597)**	(26,706)

10. Royalties expense

Royalty expenses incurred by the Group relate to petroleum royalty payments to the New Zealand Government in respect of the Tui, Kupe and Maari oil and gas fields, and are recognised on an accrual basis.

11. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at bank, short-term deposits and deposits on call with an original maturity of three months or less.

	2016	2015
	$000	$000
Cash at bank and in hand	**37,379**	15,999
Deposits at call	**31,317**	33,159
Short term deposits	**20,768**	22,965
Share of oil and gas interests' cash	**7,347**	11,536
Total cash and cash equivalents	**96,811**	83,659

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $56.8 million denominated in US dollars; NZ dollar equivalent $79.9 million (2015: US dollars $30.8 million; NZ dollar equivalent $45.3 million) and $0.6 million denominated in AU dollars, NZ dollar equivalent $0.6 million (2015: AU dollars $0.4 million, NZ dollar equivalent $0.5 million) and $1.3 million denominated in ID rupiah, NZ dollar equivalent $0.1 million (2015: ID rupiah $1.9 million, NZ dollar equivalent $0.2 million).

Deposits at call and short-term deposits
The deposits at call and short term deposits are bearing interest rates between 0.1% and 2.6% (2015: 0.2% and 3.6%).

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

12. Receivables and prepayments

	2016	2015
	$000	$000
Trade receivables	**6,193**	21,322
Share of oil and gas interests' receivables	**6,429**	6,855
Prepayments	**532**	702
Other	**2**	700
Total receivables and prepayments	**13,156**	29,579

Trade receivables denominated in currencies other than the presentation currency comprise $5.7 million denominated in US dollars; NZ dollar equivalent $8.8 million (2015: $11.6 million denominated in US dollars; NZ dollar equivalent $17.1 million) and $0.1 million denominated in AU dollars, NZ dollar equivalent $0.1 million (2015: AU dollars $0.1 million; NZ dollar equivalent $0.1 million).

13. Investments in subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, has exposure or rights to variable returns from this involvement and when it has the ability to use its power to affect the amount of the returns.

As of 1 April 2015 the Group held a 48.11% interest in Cue Energy Resources Limited which provided sufficient voting rights to unilaterally direct the relevant activities of the investee by way of its representation on Cue's Board and the relative size and dispersion of other voting interests in Cue. Cue entities below reflect the Group's 48.1% interest in Cue subsidiaries.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position respectively.

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the subsidiaries within the Group are shown below.

The consolidated financial statements incorporate the assets, liabilities and results of the following entities:

Name of entity	Country of incorporation	Equity Holding 2016 %	Equity Holding 2015 %	Functional Currency
New Zealand Oil & Gas				
ANZ Resources Pty Limited	Australia	**100**	100	AUD
Australia and New Zealand Petroleum Limited	New Zealand	**100**	100	NZD
Kupe Royalties Limited	New Zealand	**100**	100	NZD
National Petroleum Limited	New Zealand	**100**	100	NZD
Nephrite Enterprises Limited	New Zealand	**100**	100	NZD
NZOG 54867 Limited	New Zealand	**100**	100	NZD
NZOG 38483 Limited	New Zealand	**100**	100	NZD
NZOG 2013 O Limited	New Zealand	**100**	100	NZD
NZOG Asia Pty Limited	Australia	**100**	100	USD
NZOG Bohorok Pty Limited	Australia	**100**	100	USD
NZOG 54857 Limited	New Zealand	**100**	100	NZD
NZOG Developments Limited	New Zealand	**100**	100	NZD
NZOG Devon Limited	New Zealand	**100**	100	NZD
NZOG 2013T Limited	New Zealand	**100**	100	NZD
NZOG Energy Limited	New Zealand	**100**	100	NZD
NZOG Palmerah Baru Pty Limited	Australia	**100**	100	USD
NZOG Offshore Limited	New Zealand	**100**	100	NZD
NZOG Pacific Holdings Pty Limited	Australia	**100**	100	USD
NZOG Pacific Limited	New Zealand	**100**	100	NZD
NZOG Services Limited	New Zealand	**100**	100	NZD
NZOG Taranaki Limited	New Zealand	**100**	100	NZD
NZOG Tunisia Pty Limited	Australia	**100**	100	USD
Oil Holdings Limited	New Zealand	**100**	100	NZD
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90**	90	USD
Petroleum Equities Limited	New Zealand	**100**	100	NZD
Petroleum Resources Limited	New Zealand	**100**	100	NZD
Resource Equities Limited	New Zealand	**100**	100	NZD
Stewart Petroleum Co Limited	New Zealand	**100**	100	USD
NZOG MNK Kisaran Pty Limited	Australia	**100**	100	USD
NZOG MNK Bohorok Pty Limited	Australia	**100**	100	USD
NZOG MNK Palmerah Pty Limited	Australia	**100**	100	USD
Cue Energy Resources *				
Cue Energy Resources Limited	Australia	**48.1**	48.1	AUD
Cue Mahakam Hilir Pty Limited	Australia	**48.1**	48.1	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	**48.1**	48.1	AUD
Cue Sampang Pty Limited	Australia	**48.1**	48.1	AUD
Cue Taranaki Pty Limited	Australia	**48.1**	48.1	AUD
Cue Resources Inc	USA	**38.5**	38.5	USD
Buccaneer Operating LLC	USA	**38.5**	38.5	USD
Cue Kalimantan Pte Ltd	Singapore	**48.1**	48.1	USD
Cue Mahato Pty Ltd	Australia	**48.1**	48.1	AUD
Cue Exploration Pty Limited	Australia	**48.1**	48.1	AUD
Cue Cooper Pty Ltd	Australia	**48.1**	-	AUD
Cheetah Energy Services LLC	USA	**48.1**	-	USD

13. Investments in subsidiaries (continued)

All subsidiary companies have a balance date of 30 June with the exception of Pacific Oil & Gas (North Sumatera) Limited which has a 31 December balance date. All subsidiaries are predominantly involved in the petroleum exploration and production industry.

14. Oil and gas interests

The Group has interests in a number of joint arrangements which are classified as joint operations. The Group financial statements include a proportional share of the oil and gas interests' assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that joint control commences until the date that joint control ceases.

The Group held the following oil and gas production, exploration, evaluation and appraisal interests at the end of the year.

			Interest held	
Name	**Country**	**Type**	**2016 %**	**2015 %**
<u>New Zealand Oil & Gas</u>				
PML 38146 – Kupe	New Zealand	Mining Licence	15.0	15.0
PMP 38158 – Tui	New Zealand	Mining Permit	27.5	27.5
PEP 52717 – Clipper	New Zealand	Exploration Permit	50.0	50.0
PEP 51906 – Matuku	New Zealand	Exploration Permit	12.5	12.5
PEP 52181 – Kaheru (i)	New Zealand	Exploration Permit	-	35.0
PEP 55792 – Galleon	New Zealand	Exploration Permit	100.0	100.0
PEP 55793 – Vulcan	New Zealand	Exploration Permit	30.0	30.0
PEP 55794 - Toroa	New Zealand	Exploration Permit	30.0	30.0
Kisaran PSC	Indonesia	Production Sharing Contract	22.5	22.5
Bohorok PSC	Indonesia	Production Sharing Contract	45.0	45.0
Palmerah Baru PSC	Indonesia	Production Sharing Contract	36.0	36.0
MNK Kisaran PSC	Indonesia	Production Sharing Contract	11.3	11.3
MNK Palmerah PSC	Indonesia	Production Sharing Contract	15.84	15.84
MNK Bohorok	Indonesia	Joint Study Agreement	20.25	20.25
<u>Cue Energy Resources *</u>				
WA-359-P	Australia	Exploration Permit	100.0	100.0
WA-360-P (ii)	Australia	Exploration Permit	-	37.5
WA-361-P (iii)	Australia	Exploration Permit	-	15.0
WA-389-P	Australia	Exploration Permit	40.0	40.0
WA-409-P	Australia	Exploration Permit	100.0	100.0
PEP 51313	New Zealand	Exploration Permit	14.0	14.0
PEP 51149	New Zealand	Exploration Permit	20.0	20.0
PEP 54865	New Zealand	Exploration Permit	20.0	20.0
Mahakam Hilir PSC	Indonesia	Production Sharing Contract	100.0	100.0
PMP 38160 – Maari	New Zealand	Mining Permit	5.0	5.0
Sampang PSC	Indonesia	Production Sharing Contract	15.0	15.0
Mahato PSC	Indonesia	Production Sharing Contract	12.5	12.5
Pine Mills	USA	Mining Permit	80.0	80.0

(i) PEP52181 (Kaheru) permit was surrendered on 6 April 2016
(ii) WA-360-P permit was relinquished on 23 October 2015
(iii) WA-361-P permit was relinquished on 30 January 2016

* represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 48.1% of the Cue interest.

14. Oil and gas interests (continued)

Share of oil and gas interests' assets and liabilities	2016 $000	2015 $000
Current assets		
Cash and cash equivalents	**7,347**	11,536
Trade receivables *	**7,002**	7,034
Inventory	**2,440**	4,834
Non-current assets		
Petroleum interests **	**479,641**	594,419
Total assets	**496,430**	617,823
Current liabilities		
Short-term liabilities	**7,594**	20,168
Total liabilities	**7,594**	20,168
Net assets	**488,836**	597,655

Share of oil and gas interests' Profit

Revenue *	**113**	548
Expenses	**(38,584)**	(35,292)
Loss before income tax	**(38,471)**	(34,744)

* Trade receivables and revenues above do not include petroleum sales in relation to the Tui, Kupe and Maari fields, as the Group's share of production volumes are transferred from the Joint Venture to wholly owned subsidiaries and invoiced directly by the subsidiaries to third parties.

** Petroleum interests are prior to amortisation of production assets and borrowings.

15. Evaluation and exploration assets

The Group uses the successful efforts method of accounting for oil and gas exploration costs. All general exploration and evaluation costs are expensed as incurred except the direct costs of acquiring the rights to explore, drilling exploratory wells and evaluating the results of drilling. These direct costs are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

Key judgement: recoverability of exploration and evaluation assets

Assessment of the recoverability of capitalised exploration and evaluation expenditure requires certain estimates and assumptions to be made as to future events and circumstances, particularly in relation to whether economic quantities of reserves have been discovered. Such estimates and assumptions may change as new information becomes available. If it is concluded that the carrying value of an exploration and evaluation asset is unlikely to be recovered by future development or sale, the relevant amount will be expensed in the profit and loss.

Capitalised exploration and evaluation assets, including expenditure to acquire mineral interests in oil and gas properties, related to wells that find proven reserves are classified as development assets within oil and gas assets at the time of sanctioning of the development project.

	2016 $000	2015* $000
Opening balance	**15,258**	11,843
Revaluation of USD exploration and evaluation assets	**(678)**	3,415
Closing balance	**14,580**	15,258

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

16. Oil and gas assets

Development
Development assets include construction, installation and completion of infrastructure facilities such as pipelines and development wells. No amortisation is provided in respect of development assets until they are reclassified as production assets.

Production assets
Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves are amortised using the units of production method or on a basis consistent with the recognition of revenue.

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

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

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

Impairment losses recognised in prior periods are reassessed at each reporting date and the loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised previously.

	2016	2015*
	$000	$000
Opening balance	**289,356**	223,801
Oil and Gas asset on acquisition (i)	**-**	78,014
Expenditure capitalised	**6,843**	22,628
Impairment (ii)	**(26,605)**	(36,300)
Amortisation for the year	**(51,043)**	(38,874)
Depreciation for the year	**(30)**	(35)
Revaluation of USD production assets	**(7,482)**	37,289
Abandonment provision	**1,005**	2,833
Transfer of oil and gas asset to 'assets held for sale' (iii)	**(4,107)**	-
Closing balance	**207,937**	289,356

(i) The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of the oil and gas assets acquired as at 31 March 2015.

(ii) At 30 June 2016 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in an impairment loss of $26.6 million (30 June 2015: $36.3 million) being recognised. This relates to the Maari oil and gas asset (30 June 2015: nil). The Tui oil and gas asset was impaired by $8.7 million at 31 December 2015 but this was subsequently reversed due to a change in assumptions impacting the valuation model. Impairment is included in Asset impairment in the Consolidated Statement of Comprehensive Income.

Estimates of recoverable amounts of oil and gas assets are based on their value in use with a discount rate of 10% applied. The oil price assumptions used are based on the Bloomberg consensus mean (adjusted for the last sixty days of consensus) at balance date and gas and LPG prices on contracted terms.

(iii) The Pine Mills oil asset has been transferred to 'assets held for sale' and is now treated as a current asset – refer to note 24.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

17. Other financial assets

	2016	2015
	$000	$000
Performance bonds	**1,891**	1,960
Total other financial assets	**1,891**	1,960

Performance bonds include amounts held as a bond under the terms of entering joint study agreement and production sharing contracts in Indonesia. The bonds are refundable at the completion of the agreed work programmes under the joint study agreement and production sharing contracts.

18. Payables

	2016	2015
	$000	$000
Trade payables	**4,886**	8,585
Stock over lift payable (i)	**1,015**	764
Royalties payable	**1,250**	3,554
Share of oil and gas interests' payable	**8,362**	14,970
Other payables	**1,886**	3,542
Total payables	**17,399**	31,415

(i) Lifting arrangements for petroleum products produced in jointly owned operations are of such a frequency that it is not practicable for each participant to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of under/over lift is recognised as an asset or liability at the net realisable value or market rate. The net movement in under lift and over lift is recognised under operating costs in the profit or loss.

Payables denominated in currencies other than the presentation currency comprise $4.5 million of payables denominated in US dollars; NZ dollar equivalent $6.6 million. (2015: US dollars $4.1 million; NZ dollar equivalent $6.0 million) and $1.5 million of payables denominated in AU dollars; NZ dollar equivalent $0.7 million (2015: AU dollars $1.5 million; NZ dollar equivalent $1.7 million) and $591.5 million of payables denominated in ID rupiah; NZ dollar equivalent $0.1 million (2015: ID Rupiah $3.6 billion; NZ dollar equivalent $0.4 million).

19. Rehabilitation Provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 1.38% from the United States. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

	2016	2015
	$000	$000
Carrying amount at start of year	**78,930**	41,173
Rehabilitation provision assumed on acquisition of subsidiary (i)	**-**	12,332
Addition in provisions recognised	**1,405**	2,425
Foreign currency revaluation of provisions	**(3,034)**	20,066
Unwinding of discount	**1,705**	2,934
Carrying amount at end of year (ii)	**79,006**	78,930
Current	**1,548**	-
Non-current	**77,458**	78,930
Carrying amount at end of year (ii)	**79,006**	78,930

(i) The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of the rehabilitation provision assumed as at 31 March 2015.
(ii) The rehabilitation provision includes a current liability of $1.5 million relating to the Tui oil and gas asset.

20. Other provisions

The Group acquired a controlling interest in Cue on 27 March 2015 and recognised the fair value of a provision assumed as at 31 March 2015. The provision relates to a dispute between Cue and another party, whereby Cue may in certain circumstances have an obligation to reimburse monies to the other party from future profits in Sampang PSC, Indonesia. A provision has been recognised for US dollar $4.5 million plus interest (NZ dollar equivalent $6.4 million), which is an estimate of the maximum amount that might eventually become payable (refer to note 28).

21. Share capital

	2016 Number of Shares 000s	2015 Number of Shares 000s	**2016 $000**	2015 $000
Opening balance of ordinary shares issued	**345,864**	423,817	**319,060**	377,662
Shares issued during the year	**151**	4,702	**68**	4,560
Partly paid shares issued	**1,672**	1,562	**7**	1
Shares cancelled as part of buyback program *	**(2,174)**	-	**(1,046)**	-
Shares cancelled as part of capital return**	**-**	(84,217)	**-**	(63,163)
Closing balance of ordinary shares issued	**345,513**	345,864	**318,089**	319,060
Ordinary shares				
Fully paid shares	**336,007**	338,029	**318,002**	318,980
Partly paid shares	**9,506**	7,835	**87**	80
Total share capital	**345,513**	345,864	**318,089**	319,060

Shares issued during the year represent 0.2 million shares transferred from partly paid shares to fully paid shares (2015: 1.5 million shares). The partly paid shares are sold on market with the proceeds included in the shares issued amount. Prior year includes 3.2 million shares issued under the Dividend Reinvestment Plan.

Partly paid shares issued includes 2.3 million shares issued under the ESOP plan less 0.5 million of expired ESOP shares and 0.2 million of partly paid ESOP shares transferred to fully paid. Partly paid shares are entitled to a vote in proportion to the amount paid up. Information relating to the ESOP, including details of shares issued under the scheme, is set out in note 25.

All fully paid shares have equal voting rights and share equally in dividends and equity.

* In August 2015 the shareholders approved a share buyback program and the Group commenced a buyback in April 2016.

** In February 2015 the Group cancelled 1 in every 5 ordinary shares and paid $0.75 per ordinary share cancelled. The total capital returned to ordinary shareholders was $63.2 million.

22. Reserves

	2016 **$000**	2015* $000
(a) Reserves		
Revaluation reserve	**-**	(10,534)
Share based payments reserve	**115**	68
Foreign currency translation reserve	**936**	8,903
Total reserves	**1,051**	(1,563)
Movements:		
Revaluation reserve		
Opening balance at 1 July	**(10,534)**	(6,882)
Transfer to retained earnings	**10,534**	(3,652)
Closing balance at 30 June	**-**	(10,534)
Share-based payments reserve		
Opening balance at 1 July	**68**	54
Share based payment expense for the year	**93**	72
Transfer of expired share based payments during the year	**(46)**	(58)
Closing balance at 30 June	**115**	68
Foreign currency translation reserve		
Opening balance at 1 July	**8,903**	(18,738)
Foreign currency translation differences for the year	**(7,967)**	27,641
Closing balance at 30 June	**936**	8,903

(b) Nature and purpose of reserves

(i) Revaluation reserve
This reserve relates to Pan Pacific Petroleum NL investment. This investment was sold during the year and losses recognised through other comprehensive income. The losses were transferred to retained earnings in this period.

(ii) Foreign currency translation reserve
Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. The reserve is recognised in other comprehensive income when the net investment is disposed of.

23. Loss per share

	2016	2015*
Loss attributable to shareholders ($000)	**(29,763)**	(14,394)
Weighted average number of ordinary shares (000)	**347,183**	401,683
Basic and diluted earnings per share (cents)	**(8.6)**	(3.5)

24. Assets held for sale

The Group owns the Pine Mills oil field in the USA which has been classified as assets held for sale following the Cue Energy Board's approval to sell the asset as it does not fit with the strategic plan of the Group.

The net asset value at 30 June 2016 is $2.1 million. The loss after tax from discontinuing operations of $3.3 million for the year all relates to the Pine Mills oil field.

* Comparative numbers have been restated due to a voluntary change in accounting policy. Refer to note 2.

25. Financial risk management

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

(a) Market risk

(i) Foreign exchange risk
The Group is exposed to foreign currency risk on cash and cash equivalents, performance bonds, oil sales, recoverable value of oil and gas assets and capital commitments that are denominated in foreign currencies. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements. The Group may enter into foreign currency hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

(ii) Commodity price risk
Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. To manage its oil price risks the Group utilises option call contracts, with a total notional value of $1.4 million at balance date. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence.

(iii) Concentrations of interest rate exposure
The Group has no external bank debt and therefore its main interest rate risk arises from short-term deposits held.

(b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults. Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short-term cash deposits, trade receivables and short-term funding arrangements. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties. The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

The Group may be exposed to financial risk if one or more of their joint venture partners is unable to meet their obligation in relation to the abandonment costs for jointly owned oil and gas assets. Under the joint venture operating agreement if one or more partners fails to meet their financial obligation, the other partners may become proportionately liable for their share of the financial obligations but would have contractual rights of recovery against the defaulting party.

(c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has liquid funds to cover potential shortfalls.

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

30 June 2016	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**	**Contractual cash flows**
	$000	**$000**	**$000**	**$000**	**$000**	**$000**
Payables	**17,203**	**-**	**-**	**-**	**-**	**17,203**
Tax liabilities	**3,175**	**-**	**-**	**-**	**-**	**3,175**
Total non-derivative liabilities	**20,378**	**-**	**-**	**-**	**-**	**20,378**

30 June 2015	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
	$000	$000	$000	$000	$000	$000
Payables	29,982	-	-	-	-	29,982
Tax liabilities	3,625	-	-	-	-	3,625
Total non-derivative liabilities	33,607	-	-	-	-	33,607

At 30 June 2016 the Group had no derivatives to settle (2015: $Nil).

25. Financial risk management (continued)

(d) Capital management

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

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity prices and currency risks. The Group's exposure to these risks is described in note 25(a).

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

The impact on our foreign currency holdings of an increase in the value of the New Zealand dollar against the United States dollar by 5% at 30 June 2016 would be to decrease the Group profit before tax by $2.4 million and decrease the foreign currency translation reserve in equity by $1.8 million (2015: $1.5 million decrease on profit before tax and $2.3 million decrease in the foreign currency translation reserve).

As at 30 June 2016 a US dollars $5 movement in oil prices (holding all other things constant) would alter the value of the option asset/liability by approximately $0.15 million (30 June 2015: Nil).

The impact of an increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by $1.0 million (2015: $0.9 million increase), based on maintaining current cash balances.

(f) Recognised assets and liabilities

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

(g) Financial instruments by category

	Amortised cost $000	Total at carrying value $000
At 30 June 2016		
Assets		
Cash and cash equivalents	**96,811**	**96,811**
Trade and other receivables	**12,589**	**12,589**
	109,400	**109,400**
Liabilities		
Payables	**17,203**	**17,203**
Borrowings	**1,139**	**1,139**
	18,342	**18,342**
At 30 June 2015		
Assets		
Cash and cash equivalents	83,659	83,659
Trade and other receivables	28,177	28,177
	111,836	111,836
Liabilities		
Payables	29,982	29,982
Borrowings	1,000	1,000
	30,982	30,982

The fair value of financial instruments is equivalent to their carrying value.

26. Related party transactions

Related parties of the Group include those entities identified in notes 13 and 14 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms. There have been no material transactions with related parties during the year.

Certain directors have relevant interests in a number of companies with which the Group has transactions in the normal course of business. A number of directors are also non-executive directors of other companies. Any transactions undertaken with these entities have been entered into as part of the ordinary business.

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group. Cue management personnel have been included for the year ended 30 June 2016 and for the three-month period to 30 June 2015.

	2016	2015
	$000	$000
Short term employee benefits	**6,610**	4,447
Share based payments	**27**	41
Termination benefits	**107**	-
Total	**6,744**	**4,488**

27. Share-based payments

The Group operates an Employee Share Ownership Plan (ESOP) which is open to nominated employees. Under the plan there are currently 9.5 million partly paid shares for which employees have paid $0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2016 $0.09 million was expensed through the Consolidated Statement of Comprehensive Income. A total of 2.3 million shares were awarded, 0.2 million shares vested during the year at an average cost of $0.45 per share, expired shares totalling 0.5 million were sold and 0.1 million shares were forfeited.

28. Commitments and contingent assets and liabilities

(a) Exploration expenditure commitments

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

(b) Operating leases and commitments

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

	2016 $000	2015 $000
Within one year	**1,032**	932
Later than one year and not later than five years	**446**	1,266
	1,478	**2,198**

During the year ended 30 June 2016 $0.7 million was recognised as an expense in profit or loss in respect of operating leases (2015: $0.7 million).

The Group is committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the Floating Production Storage and Offtake (FPSO) vessel lease until 31 December 2017 with optional one-year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for period to 31 December 2017 is currently estimated to be US dollars $11.5 million (2015: US dollars $13.7 million).

(c) Contingent assets and liabilities

As a result of an economic project arrangement in the Jeruk field within the Sampang PSC, Indonesia, Cue may in certain circumstances have an obligation to reimburse certain monies spent by the incoming party from future profit within the Sampang PSC. There is a dispute between Cue and the incoming party as to the quantum of monies that they may be entitled to claim by way of such reimbursement and when any such reimbursement would be payable. The Company is of the view that any amount which might eventually become payable would not be likely to exceed the amount of US dollars $4.5 million which has been provided for in the accounts. Claims made by the incoming party are yet to be settled and hence there is still significant judgement and estimation in relation to these legal claims.

29. Subsequent events

There have been no significant subsequent events since balance date.

Independent auditor’s report

To the shareholders of New Zealand Oil & Gas Limited

We have audited the accompanying consolidated financial statements of New Zealand Oil & Gas Limited and its subsidiaries ("the group") on pages 1 to 24. The financial statements comprise the consolidated statement of financial position as at 30 June 2016, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our audit work has been undertaken so that we might state to the company’s shareholders those matters we are required to state to them in the auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company’s shareholders as a body, for our audit work, this report or any of the opinions we have formed.

Directors' responsibility for the consolidated financial statements

The directors are responsible on behalf of the company for the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

Auditor’s responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the group’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our firm has also provided other services to the group in relation to taxation services. These matters have not impaired our independence as auditor of the group. The firm has no other relationship with, or interest in, the group.

Opinion

In our opinion, the consolidated financial statements on pages 1 to 24 comply with generally accepted accounting practice in New Zealand and present fairly, in all material respects, the consolidated financial position of New Zealand Oil & Gas Limited as at 30 June 2016 and its consolidated financial performance and cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

KPMG

23 August 2016
Wellington