New Zealand Oil & Gas Limited Consolidated Financial Statements for the year ended 30 June 2014

The Board of Directors of New Zealand Oil & Gas Limited authorised these Consolidated Financial Statements for issue on 2 September 2014.

For and on behalf of the Board.

PW Griffiths	M Tume
Director	Director
2 September 2014	2 September 2014

New Zealand Oil & Gas Limited
Consolidated Income Statement
For the year ended 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Revenue	4	**103,622**	99,259	**-**	-
Operating costs	5	**(47,733)**	(43,917)	**-**	-
Gross profit		**55,889**	55,342	**-**	-
Other income	4	**11,758**	9,644	**1,356**	447
Exploration and evaluation costs expensed	14	**(29,529)**	(15,090)	**-**	-
Other expenses	6	**(10,638)**	(10,260)	**(10,138)**	(10,030)
Results from operating activities		**27,480**	39,636	**(8,782)**	(9,583)
Finance cost	7	**(6,566)**	(1,699)	**(25,649)**	(14,063)
Finance income	7	**4,200**	7,613	**27,641**	29,632
Net finance income/(costs)	7	**(2,366)**	5,914	**1,992**	15,569
Profit/(loss) before income tax and royalties		**25,114**	45,550	**(6,790)**	5,986
Income tax expense	9	**(7,310)**	(10,234)	**2,359**	26
Royalties expense	8	**(7,726)**	(9,371)	**-**	-
Profit/(loss) for the year		**10,078**	25,945	**(4,431)**	6,012
Profit/(loss) for the year attributable to:					
Equity holders of parent		**10,078**	25,945		
		10,078	25,945		
Basic earnings per share attributable to shareholders:	22	**2.4**	6.5		
Net tangible asset backing per share		**81**	86		

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
Profit/(loss) for the year		**10,078**	25,945	**(4,431)**	6,012
Other comprehensive income:					
Items that will not be reclassified to profit and loss					
Fair value gain/(loss) through other comprehensive income	21	**(2,091)**	134	**-**	-
Items that may be reclassified to profit and loss					
Foreign currency translation differences	21	**(6,770)**	695	**-**	-
Total comprehensive income for the year, net of tax		**1,217**	26,774	**(4,431)**	6,012
Total comprehensive income for the year, net of tax:					
Attributable to equity holders of the parent		**1,217**	26,774		

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

New Zealand Oil & Gas Limited
Consolidated Statement of Financial Position
As at 30 June 2014

	Notes	Group 2014 $'000	Group 2013 $'000	Parent 2014 $'000	Parent 2013 $'000
ASSETS					
Current assets					
Cash and cash equivalents	10	**135,075**	158,018	**13,126**	124,809
Receivables and prepayments	11	**27,102**	30,832	**135,568**	51,170
Inventories		**6,930**	1,259	**-**	-
Current tax receivables		**1,752**	-	**-**	2,834
Total current assets		**170,859**	190,109	**148,694**	178,813
Non-current assets					
Evaluation and exploration assets	14	**54,927**	44,480	**60**	-
Oil and gas assets	15	**223,801**	198,634	**-**	-
Property, plant and equipment		**1,095**	595	**993**	545
Intangible assets		**724**	116	**724**	116
Deferred tax asset	19	**-**	-	**2,601**	98
Other financial assets	16	**9,842**	11,915	**65,200**	57,172
Total non-current assets		**290,389**	255,740	**69,578**	57,931
Total assets		**461,248**	445,849	**218,272**	236,744
LIABILITIES					
Current liabilities					
Payables	17	**32,349**	18,555	**3,607**	1,660
Current tax liabilities		**-**	1,755	**1,085**	-
Other current liabilities		**304**	-	**-**	-
Total current liabilities		**32,653**	20,310	**4,692**	1,660
Non-current liabilities					
Borrowings		**776**	197	**-**	-
Restoration and rehabilitation provision	18	**41,173**	30,197	**-**	-
Deferred tax liability	19	**44,507**	37,151	**-**	-
Total non-current liabilities		**86,456**	67,545	**-**	-
Total liabilities		**119,109**	87,855	**4,692**	1,660
Net assets		**342,139**	357,994	**213,580**	235,084
EQUITY					
Share capital	20	**377,662**	370,711	**377,662**	370,711
Reserves	21	**(25,566)**	(16,539)	**6,519**	6,685
Retained earnings		**(9,957)**	3,822	**(170,601)**	(142,312)
Total equity		**342,139**	357,994	**213,580**	235,084

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

		Attributable to equity holders of New Zealand Oil & Gas Limited			
GROUP	Notes	**Issued capital $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2013		370,711	(16,539)	3,822	357,994
Comprehensive income					
Profit/(loss) for the year		-	-	10,078	10,078
Other comprehensive income, net of tax:					
Fair value loss through other comprehensive income	21	-	(2,091)	-	(2,091)
Foreign currency translation differences	21	-	(6,770)	-	(6,770)
Total comprehensive income		-	(8,861)	10,078	1,217
Transactions with owners:					
Shares issued	20	6,951	-	-	6,951
Share based payment	21	-	154	-	154
Transfer of expired share based payments during the year	21	-	(320)	320	-
Dividend paid (6 cents per ordinary share)		-	-	(24,177)	(24,177)
Supplementary dividend		-	-	(1,023)	(1,023)
Foreign investor tax credit		-	-	1,023	1,023
Balance as at 30 June 2014		377,662	(25,566)	(9,957)	342,139
Balance at 1 July 2012		358,584	(17,243)	13,670	355,011
Comprehensive income					
Profit/(loss) for the year		-	-	25,945	25,945
Other comprehensive income, net of tax:					
Fair value gain through other comprehensive income	21	-	134	-	134
Foreign currency translation differences	21	-	695	-	695
Total comprehensive income		-	829	25,945	26,774
Transactions with owners:					
Shares issued	20	12,127	-	-	12,127
Share based payment	21	-	201	-	201
Transfer of expired share based payments during the year	21	-	(326)	326	-
Dividends paid (9 cents per ordinary share)		-	-	(36,119)	(36,119)
Supplementary dividend		-	-	(1,107)	(1,107)
Foreign investor tax credit		-	-	1,107	1,107
Balance as at 30 June 2013		370,711	(16,539)	3,822	357,994

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

PARENT	Notes	**Issued capital $'000**	**Reserves $'000**	**Retained earnings $'000**	**Total equity $'000**
Balance at 1 July 2013		370,711	6,685	(142,312)	235,084
Comprehensive income					
Profit/(loss) for the year		-	-	(4,431)	(4,431)
Total comprehensive income		-	-	(4,431)	(4,431)
Transactions with owners:					
Shares issued	20	6,951	-	-	6,951
Share based payment	21	-	154	-	154
Transfer of expired share based payments during the year	21	-	(320)	320	-
Dividend paid (6 cents per ordinary share)		-	-	(24,178)	(24,178)
Supplementary dividend		-	-	(1,023)	(1,023)
Foreign investor tax credit		-	-	1,023	1,023
Balance as at 30 June 2014		377,662	6,519	(170,601)	213,580
Balance at 1 July 2012		358,584	6,810	(112,531)	252,863
Comprehensive income					
Profit/(loss) for the year		-	-	6,012	6,012
Total comprehensive income		-	-	6,012	6,012
Transactions with owners:					
Shares issued	20	12,127	-	-	12,127
Share based payment	21	-	201	-	201
Transfer of expired share based payments during the year	21	-	(326)	326	-
Dividends paid (9 cents per ordinary share)		-	-	(36,119)	(36,119)
Supplementary dividend		-	-	(1,107)	(1,107)
Foreign investor tax credit		-	-	1,107	1,107
Balance as at 30 June 2013		370,711	6,685	(142,312)	235,084

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

	Notes	Group		Parent	
		2014	2013	**2014**	2013
		$'000	$'000	**$'000**	$'000
Cash flows from operating activities					
Receipts from customers		**108,560**	98,015	**-**	-
Interest received		**4,170**	5,534	**4,078**	5,209
Other revenue		**9,992**	270	**-**	-
Production and marketing expenditure		**(19,574)**	(20,986)	**-**	-
Payments to suppliers and employees (inclusive of Goods and Services Tax)		**(2,198)**	(12,064)	**(5,904)**	(9,086)
Royalties paid		**(10,487)**	(11,204)	**-**	-
Interest paid		**-**	(1,296)	**-**	-
Income taxes paid		**(2,510)**	(4,013)	**2,200**	(4,000)
Net cash inflow / (outflow) from operating activities	23	**87,953**	54,256	**374**	(7,877)
Cash flows from investing activities					
Receipt of loan repayment from Associate		**-**	7,427	**-**	-
Return of capital from Pan Pacific Petroleum NL		**-**	5,554	**-**	-
Exploration and evaluation expenditure		**(74,883)**	(42,239)	**-**	-
Oil & gas expenditure		**(1,384)**	(5,179)	**-**	-
Subsidiary shares issued to New Zealand Oil & Gas Limited		**-**	-	**(15,406)**	(6,246)
Purchase of oil and gas interest		**(7,733)**	-	**-**	-
Purchase of property, plant and equipment		**(1,486)**	(404)	**(1,394)**	(397)
Loan from / (to) wholly owned subsidiaries		**-**	-	**(71,744)**	(10,928)
Receipt / (payment) of performance bonds		**(1,097)**	888	**(1,200)**	828
Net cash inflow / (outflow) from investing activities		**(86,583)**	(33,953)	**(89,744)**	(16,743)
Cash flows from financing activities					
Issues of shares		**20**	563	**20**	563
Repayment of borrowings		**-**	(46,603)	**-**	-
Proceeds from sale of forfeited shares		**506**	2,496	**506**	2,496
Other		**(1)**	18	**-**	-
Dividends paid		**(18,776)**	(28,152)	**(18,776)**	(28,152)
Net cash inflow / (outflow) from financing activities		**(18,251)**	(71,678)	**(18,250)**	(25,093)
Net increase / (decrease) in cash and cash equivalents		**(16,881)**	(51,375)	**(107,620)**	(49,713)
Cash and cash equivalents at the beginning of the year		**158,018**	209,221	**124,809**	174,790
Effects of exchange rate changes on cash and cash equivalents		**(6,062)**	172	**(4,063)**	(268)
Cash and cash equivalents at end of year	10	**135,075**	158,018	**13,126**	124,809

The above consolidated income statement should be read in conjunction with the accompanying *notes on pages 8 to 40.*

1 General information

New Zealand Oil & Gas Limited (the "Company" or "Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange ("NZX") and Australian Stock Exchange ("ASX"). The Company is an issuer in terms of the Financial Reporting Act 1993.

The financial statements presented herewith as at and for the year ended 30 June 2014 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 25 August 2014.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated Group.

(A) Basis of preparation

Statement of compliance
From 1 April 2014, the new Financial Reporting Act 2013 ("FRA 2013") has come into force replacing the Financial Reporting Act 1993, this is effective for all for-profit entities with reporting periods beginning on or after 1 April 2014. This will be effective for New Zealand Oil & Gas Limited's 30 June 2015 year end. It is expected that the change in legislation will have no material impact on New Zealand Oil & Gas Limited's obligation to prepare general purpose financial statements. In addition to the change in legislation the External Reporting Board of New Zealand ("XRB") has released a new accounting standards framework which establishes the financial standards to be applied to entities with statutory financial reporting obligations. New Zealand Oil & Gas Limited is currently reporting under NZ IFRS. Under the new XRB framework management expects that New Zealand Oil & Gas Limited is expected to continue to apply NZ IFRS as applicable for Tier 1 for-profit entities. Management expects that this will have no material impact on the preparation and disclosures included in the financial statements.

Basis of measurement

These financial statements have been prepared under the historical cost basis, except that shares held in Pan Pacific Petroleum NL have been stated at fair value.

Functional and presentation currency

These financial statements are presented in New Zealand dollars (NZD or $), unless otherwise stated, which is the Company's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

Use of 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

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 the recoverability of evaluation and exploration and oil and gas assets, the provision for restoration and rehabilitation obligations and recoverability of deferred tax.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to notes 14 and 15)

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate. (Refer to note 18)

The key assumption concerning the recoverability of deferred tax assets is the ability of entities in the Group to generate future taxable income. (Refer to note 19)

2 Summary of significant accounting policies (continued)

(B) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases. (Refer to note 12)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. The acquisition method of accounting involves recognising at acquisition date, separately from goodwill, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired. The identifiable assets acquired and the liabilities assumed are measured at their acquisition date fair values.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company. The directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets.

(ii) Oil and gas interests

Oil and gas interests are those joint arrangements established by contractual agreement over which the Group has joint control. 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 control commences until the date that control ceases.

(C) Foreign currency translation

(i) Functional and presentation currency

Items included in 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 consolidated and parent financial statements are presented in New Zealand dollars, which is the Group’s presentation currency.

(ii) Transactions and balances

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.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a component of equity.

2 Summary of significant accounting policies (continued)

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(D) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Investments in equity securities

The Group's investments in equity securities where the Group does not have joint control are classified as financial assets that are fair valued through other comprehensive income. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised directly in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments which comprise cash at bank, short-term deposits and deposits at call with an original maturity of six months or less. Cash also includes the Group's share of cash held in oil and gas interests and restricted cash held under New Zealand Oil & Gas Limited's FPSO Charter Agreement.

Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to licence work programme commitments being met.

Performance bonds

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

(ii) Derivative financial instruments

From time to time the Group may use derivative financial instruments to hedge its exposure to commodity risks and foreign exchange risks arising from operational and financing activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Trading instruments

These derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

Economic hedges

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

2 Summary of significant accounting policies (continued)

(iii) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(E) Exploration and evaluation assets

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which: (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or (ii) Exploration and/or evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the areas of interest are continuing.

Capitalised exploration and evaluation expenditure are impaired and an impairment loss is recognised in the income statement 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 when the decision to abandon an area of interest is made. An area of interest is defined by the Group as being a permit area where rights of tenure are current.

Upon determining technical feasibility and commercial viability of an area of interest exploration and evaluation assets for the area of interest in question is transferred to development assets. No amortisation is provided for in respect of exploration and evaluation assets.

The recoverability of exploration and evaluation assets is contingent upon facts, such as technical success and commercial development, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and also upon meeting commitments under the terms of permits granted and joint venture agreements.

Expenditure incurred prior to obtaining the rights of tenure in relation to separate areas of interest are expensed in the period in which they are incurred.

(F) 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. The carrying value is assessed for impairment each reporting date.

Under/over lift

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 underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of the petroleum product. The net movement in underlift and overlift is recognised under operating costs in the income statement.

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.

2 Summary of significant accounting policies (continued)

(G) Impairment

The carrying amounts of the Group's assets are reviewed at each balance date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

(i) Impairment of receivables

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

(ii) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. For exploration and evaluation assets the method for reviewing for impairment is described in note 2(G)(iii).

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 income statement. Impairment losses recognised 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.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment 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.

(iii) Exploration and evaluation assets

Exploration and evaluation assets are tested for impairment when either the period of the exploration right has expired or will expire in the near future, substantive expenditure on further exploration for and evaluation in the specific area is neither budgeted or planned, exploration for and evaluation in the specific area have not led to the discovery of commercially viable quantities and the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Any impairment loss is recognised as an expense in the income statement in the period.

(H) Goods and Services Tax (GST)

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

(I) Employee benefits

(i) **Wages and salaries, annual leave and sick leave**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

2 Summary of significant accounting policies (continued)

(ii) **Share based payments**
The issue date fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

(J) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(i) Restoration and rehabilitation provision

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas. Any changes in the liability in future periods are added or deducted from the related asset, other than the unwinding of the discount which is recognised as an interest expense in the income statement as it occurs. The provision is determined by discounting expected future expenditure at an appropriate risk free interest rate relevant to the currency of the expected expenditure.

(K) Revenue recognition

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

(i) Sales of goods
Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer.

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

(L) Finance income and costs

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of financial assets at fair value through other comprehensive income, foreign currency gains and gains on hedging instruments that are recognised in the income statement. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company’s right to receive payment is established.

Finance costs comprise unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of financial assets at fair value through other comprehensive income, and losses on hedging instruments that are recognised in the income statement. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the income statement using the effective interest method.

(M) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

2 Summary of significant accounting policies (continued)

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. 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.

(N) Royalties expense

The Group recognises petroleum royalties payable to the New Zealand Government on an accruals basis.

(O) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the financial performance attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the financial performance attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises granted share options.

(P) Net tangible asset backing per share

The Group presents net tangible asset backing per share for its issued shares. Net tangible asset backing per share is calculated by dividing net tangible assets by the number of ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles off net assets as presented at the end of the reporting period.

(Q) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Group's Chief Executive Officer (CEO) to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is 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.

(R) Fair value estimation

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of financial assets at fair value through other comprehensive income that are traded on an active market is determined by reference to their quoted bid price at the reporting date.

The fair value of financial assets at fair value through other comprehensive income that are not traded on an active market is determined by the use of a valuation technique.

The fair value of employee partly paid shares is measured using the Black Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), life of the instruments, expected dividends, and the risk free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

2 Summary of significant accounting policies (continued)

(S) Standards, amendments, and interpretations effective for the year.

The group adopted the following new standards, amendments and interpretations to existing standards that became mandatory for the current financial year. The adoption of these standards has no significant impact on the financial statements.

- *NZ IFRS 9, Financial Instruments (2010)*
- *NZ IFRS 10, Consolidated Financial Statements*
- *NZ IFRS 11, Joint Arrangements*
- *NZ IFRS 12, Disclosure of Interests in Other Entities*
- *NZ IFRS 13, Fair Value Measurement*
- *NZ IAS 27, Separate Financial Statements (2011)*
- *NZ IAS 28, Investments in Associates and Joint Ventures (2011)*

(T) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the accounting periods beginning on or after 1 January 2014 but which the Company has not early adopted:

NZ IFRS 10, Consolidated Financial Statements: (Amendments)- (effective from annual periods beginning on or after 1 January 2014)

NZ IFRS 12, Disclosure of Interests in Other Entities (Amendment) - (effective from annual periods beginning on or after 1 January 2014)

NZ IAS 27, Separate Financial Statements (2011) (Amendment) - (effective from annual periods beginning on or after 1 January 2014)

NZ IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendment) - (effective from annual periods beginning on or after 1 January 2014)

NZ IAS 36, Recoverable Amount Disclosures for Non-Financial Assets (Amendment) - (effective from annual periods beginning on or after 1 January 2014)

NZ IFRIC 21, Levies - (effective from annual periods beginning on or after 1 January 2014)

The impact of these accounting standards is currently being assessed.

(U) Changes in accounting policies

There have been no changes in accounting policies during the current year.

3 Segment information

For management purposes, the Group's activities are organised into a number of different segments based on the nature of the venture or investment.

Management monitors operating results and technical data associated with these segments separately for the purposes of making decisions about resource allocation and performance assessment. The financial performance of each segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs, taxes and other corporate activities are managed at a Group level.

The following summaries describe the activities within each of the reportable operating segments:

Oil and gas
Tui area oil fields: 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 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.

Exploration: exploration and evaluation of hydrocarbons in the offshore Taranaki basin and offshore Canterbury basin, New Zealand, Tunisia and in Indonesia.

Segment revenues are allocated based on whether the customer is located in New Zealand or overseas. All segment assets are based in New Zealand with the exception of the investment in Pan Pacific Petroleum NL, which is an Australian listed company, and investment in exploration and evaluation assets in Tunisia and Indonesia.

3 Segment information (continued)

2014	Oil & Gas - Tui $'000	Oil & Gas - Kupe $'000	Oil & Gas - Exploration $'000	Other & unallocated $'000	Total $'000
Sales to external customers - NZ	-	43,615	-	-	43,615
Sales to external customers - other countries	27,700	32,307	-	-	60,007
Total sales revenue	27,700	75,922	-	-	103,622
Other income	139	10,720	-	899	11,758
Total revenue and other income	27,839	86,642	-	899	115,380
Segment result	14,752	51,585	(29,529)	(9,328)	27,480
Other reconciling items - net finance income / costs					(2,366)
Profit before income tax					25,114
Income tax and royalties expense					(15,036)
Profit for the year					10,078
Segment assets	64,351	159,450	54,927	7,437	286,165
Unallocated assets					175,083
Total assets					461,248
Included in the segment result:					
Depreciation and amortisation expense	6,249	21,924	-	390	28,563

2013	Oil &Gas - Tui $'000	Oil & Gas - Kupe $'000	Oil & Gas - Exploration $'000	Other and unallocated $'000	Total $'000
Sales to external customers - NZ	-	36,695	-	-	36,695
Sales to external customers - other countries	30,413	32,151	-	-	62,564
Total sales revenue	30,413	68,846	-	-	99,259
Other income	-	9,197	-	447	9,644
Total revenue and other income	30,413	78,043	-	447	108,903
Segment result	18,458	46,079	(15,090)	(9,811)	39,636
Other reconciling items - net finance income / (costs)					5,914
Profit before income tax					45,550
Income tax and royalties expense					(19,605)
Profit for the year					25,945
Segment assets	13,744	184,890	44,480	10,500	253,614
Unallocated assets					192,235
Total assets					445,849
Included in the segment result:					
Depreciation and amortisation expense	3,977	18,357	-	96	22,430

4 Income

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Revenue				
Petroleum sales	**103,622**	99,259	**-**	-
Total revenue	**103,622**	99,259	**-**	-
Other income				
Rental income	**49**	29	**-**	-
Insurance proceeds	**139**	9,000	**-**	-
Royalty income (i)	**10,623**	-	**-**	-
Carbon emission expenditure recovered	**35**	158	**-**	-
Other income	**912**	457	**1,356**	447
Total other income	**11,758**	9,644	**1,356**	447
Total income	**115,380**	108,903	**1,356**	447

(i) During the year New Zealand Oil & Gas Limited reached agreement with Genesis Energy over the payment of overriding royalties from the Kupe oil and gas field, in relation to 20% of Genesis Energy's 31% interest. Origin Energy have a similar overriding royalty agreement, in relation to 10% of their 50% equity share, and negotiations are sufficiently advanced for the revenue to be recognised. The royalty income includes $8.0m in respect of prior years.

5 Operating costs

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Production and sales marketing costs	**22,669**	19,162	**-**	-
Amortisation of production asset	**27,935**	22,334	**-**	-
Carbon emission expenditure	**33**	94	**-**	-
Insurance expenditure	**1,772**	1,628	**-**	-
Movement in inventory	**(6,355)**	526	**-**	-
Movement in stock over/(under) lift	**1,679**	173	**-**	-
Total operating costs	**47,733**	43,917	**-**	-

6 Other expenses

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Classification of other expenses by nature				
Audit fees	**140**	146	**138**	136
Directors' fees	**523**	487	**523**	487
Legal fees	**280**	269	**279**	240
Consultants' fees	**1,448**	1,146	**1,448**	1,139
Employee expenses (i)	**3,572**	4,941	**3,572**	4,941
Depreciation	**393**	81	**155**	79
Amortisation of intangible assets	**235**	15	**235**	15
Share based payment expense	**154**	201	**154**	201
IT and software expenses	**673**	315	**673**	315
Donations	**-**	4	**-**	4
Pre-permit expenditure	**235**	-	**-**	-
Registry and stock exchange fees	**404**	360	**404**	360
Other	**2,581**	2,295	**2,557**	2,113
Total other expenses	**10,638**	10,260	**10,138**	10,030

(i) Employee expenses are net of $3.6m (2013: $1.4m) capitalised to exploration and evaluation assets and recharged to operated joint ventures.

6 Other expenses (continued)

Remuneration of auditors

	Group		Parent	
	2014 **$'000**	2013 $'000	**2014** **$'000**	2013 $'000
Auditors' remuneration to KPMG comprises:				
Audit and review of financial statements	**140**	146	**138**	136
Non audit related services:				
Tax compliance services	**79**	83	**79**	83
Tax advisory services	**155**	292	**155**	292
Other assurance services	**132**	-	**132**	-
	506	521	**504**	511

Other assurance services include providing business advisory services and accounting technical advice.

7 Net finance income/(costs)

	Group		Parent	
	2014 **$'000**	2013 $'000	**2014** **$'000**	2013 $'000
Finance costs				
Interest and finance charges	**(122)**	(1,159)	**(122)**	-
Unwinding of discount on provisions	**(1,911)**	(540)	**-**	-
Exchange losses on foreign currency balances	**(4,533)**	-	**(4,165)**	(288)
Impairment of loans and investments in subsidiaries	**-**	-	**(21,362)**	(13,775)
Total finance costs	**(6,566)**	(1,699)	**(25,649)**	(14,063)
Finance income				
Interest income	**4,200**	4,748	**4,077**	4,481
Exchange gains on foreign currency balances	**-**	365	**-**	-
Reversal of Impairment of loan to Associate - Principal	**-**	2,500	**-**	-
Dividend income	**-**	-	**23,564**	25,151
Total finance income	**4,200**	7,613	**27,641**	29,632
Net finance income/(costs)	**(2,366)**	5,914	**1,992**	15,569

8 Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui area oil fields and Kupe gas and oil field.

9 Income tax expense

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
(a) Income tax expense				
Current tax	**(91)**	4,891	**144**	-
Deferred tax (Refer note 19)	**7,401**	5,343	**(2,503)**	(26)
Total income tax expense	**7,310**	10,234	**(2,359)**	(26)
(b) Income tax expense calculation				
Profit/(loss) before income tax expense and royalties	**25,114**	45,550	**(6,790)**	5,986
Less: royalties expense	**(7,726)**	(9,371)	**-**	-
Profit/(loss) before income tax expense	**17,388**	36,179	**(6,790)**	5,986
Tax at the New Zealand tax rate of 28%	**4,869**	10,130	**(1,901)**	1,676
Tax effect of amounts which are not deductible/(taxable):				
Non-deductible write off	**1,802**	-	**-**	-
Foreign exchange adjustments	**(534)**	225	**-**	-
Impairment of financial assets/(reversal of impairment)	**-**	(700)	**-**	-
Dividends from wholly owned subsidiaries	**-**	-	**(6,598)**	(7,042)
Impairment of related party loans and investment in subsidiaries	**-**	-	**5,981**	3,857
Other expenses/(income)	**271**	534	**16**	364
	6,408	10,189	**(2,502)**	(1,145)
Underprovision in prior years	**902**	45	**143**	-
Losses utilised	**-**	-	**-**	1,119
Income tax expense	**7,310**	10,234	**(2,359)**	(26)
(c) Imputation credits				
Available balance	1,165	2,958	1,112	(2,177)

10 Cash and cash equivalents

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Cash at bank and in hand	**2,284**	20,310	**2,086**	954
Deposits at call	**15,026**	10,779	**740**	4,255
Short term deposits	**110,238**	119,600	**10,300**	119,600
Share of oil and gas interests' cash	**7,527**	7,329	**-**	-
Total cash and cash equivalents	**135,075**	158,018	**13,126**	124,809

Cash and cash equivalents denominated in currencies other than the presentation currency comprise $30.0 million denominated in US dollars; NZ dollar equivalent $34.3 million (2013: US dollars $42.3 million; NZ dollar equivalent $54.3 million).

(a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.6% and 4.4% (2013: 0.1% and 3.9%).

11 Receivables and prepayments

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Net trade receivables				
Trade receivables	**21,890**	28,146	**9,398**	1,884
Interest receivable	**396**	362	**361**	362
Share of oil and gas interests' receivables	**3,848**	713	**-**	-
	26,134	29,221	**9,759**	2,246
Advances to related parties	**-**	-	**125,550**	48,717
Other				
Prepayments	**817**	821	**108**	117
Stock under lift receivable	**-**	118	**-**	-
Other	**151**	672	**151**	90
Total receivables and prepayments	**27,102**	30,832	**135,568**	51,170

Trade receivables denominated in currencies other than the presentation currency comprise $2.9 million denominated in US dollars; NZ dollar equivalent 3.3 million (2013: $11.4 million denominated in US dollars; NZ dollar equivalent $14.6 million).

12 Investments in subsidiaries

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

		Equity Holding	
		2014	**2013**
Name of entity	**Country of incorporation**	**%**	**%**
ANZ Resources Pty Limited	Australia	**100**	100
Australia and New Zealand Petroleum Limited	New Zealand	**100**	100
Kupe Royalties Limited	New Zealand	**100**	100
National Petroleum Limited	New Zealand	**100**	100
Nephrite Enterprises Limited	New Zealand	**100**	100
NZOG 54867 Limited	New Zealand	**100**	100
NZOG 38483 Limited	New Zealand	**100**	100
NZOG 2013 O Limited *	New Zealand	**100**	100
NZOG Asia Pty Limited	Australia	**100**	100
NZOG Bohorok Pty Limited	Australia	**100**	100
NZOG 54857 Limited	New Zealand	**100**	100
NZOG Developments Limited	New Zealand	**100**	100
NZOG Devon Limited	New Zealand	**100**	100
NZOG 2013 T Limited **	New Zealand	**100**	100
NZOG Energy Limited	New Zealand	**100**	100
NZOG Palmerah Baru Pty Limited ***	Australia	**100**	100
NZOG Offshore Limited	New Zealand	**100**	100
NZOG Pacific Holdings Pty Limited	Australia	**100**	100
NZOG Pacific Limited	New Zealand	**100**	100
NZOG Services Limited	New Zealand	**100**	100
NZOG Taranaki Limited	New Zealand	**100**	100
NZOG Tunisia Pty Limited	Australia	**100**	100
Oil Holdings Limited	New Zealand	**100**	100
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90**	90
Petroleum Equities Limited	New Zealand	**100**	100
Petroleum Resources Limited	New Zealand	**100**	100
Resource Equities Limited	New Zealand	**100**	100
Stewart Petroleum Co Limited	New Zealand	**100**	100
New Zealand Oil & Gas Employee Benefit Trust	New Zealand	**-**	-

* On 20 September 2013, NZOG 38494 Limited was renamed NZOG 2013 O Limited.

** On 20 September 2013, NZOG Egmont Limited was renamed NZOG 2013 T Limited.

*** On 15 October 2013, NZOG Hammamet Pty Limited was renamed NZOG Palmerah Baru Pty Limited.

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 industry.

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

United States dollar functional currency companies:

- Stewart Petroleum Co Limited
- NZOG Tunisia Pty Limited
- NZOG Asia Pty Limited
- NZOG Palmerah Baru Pty Limited
- NZOG Bohorok Pty Ltd
- NZOG Pacific Holding Pty Limited
- Pacific Oil & Gas (North Sumatera) Limited

Australian dollar functional currency company:

- ANZ Resources Pty Limited

12 Investments in subsidiaries (continued)

The following wholly owned subsidiaries were incorporated in Australia after 30 June 2014:

- NZOG MNK Kisaran Pty Limited (incorporated 3 July 2014)
- NZOG MNK Bohorok Pty Limited (incorporated 4 July 2014)
- NZOG MNK Palmerah Pty Limited (incorporated 4 July 2014)

13 Oil and gas interests

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

			Interests held by the Group	
Name	**Country**	**Type**	**2014**	2013
PML 38146 - Kupe	New Zealand	Mining Licence	**15.0%**	15.0%
PMP 38158 - Tui (i)	New Zealand	Mining Permit	**27.5%**	12.5%
PMEP 51311 - Kakapo (ii)	New Zealand	Exploration Permit	**- %**	100.0%
PEP 53473 - Takapou	New Zealand	Exploration Permit	**50.0%**	50.0%
PEP 54857 - Waru	New Zealand	Exploration Permit	**100.0%**	100.0%
PEP 52717 - Clipper	New Zealand	Exploration Permit	**50.0%**	50.0%
PEP 51906 - Matuku	New Zealand	Exploration Permit	**12.5%**	12.5%
PEP 54867 - Manaia (iii)	New Zealand	Exploration Permit	**- %**	40.0%
PEP 52181 - Kaheru	New Zealand	Exploration Permit	**35.0%**	35.0%
PEP 52593 - Taranga	New Zealand	Exploration Permit	**50.0%**	50.0%
PEP 51558 - Kanuka (iv)	New Zealand	Exploration Permit	**- %**	50.0%
PEP 55792 - Galleon	New Zealand	Exploration Permit	**100.0%**	- %
PEP 55793 - Vulcan	New Zealand	Exploration Permit	**30.0%**	- %
PEP 55794 - Toroa	New Zealand	Exploration Permit	**30.0%**	- %
Diodore (v)	Tunisia	Prospecting Permit	**100.0%**	100.0%
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%**	- %
MNK Kisaran PSC (vi)	Indonesia	Production Sharing Contract	**11.3%**	- %
Cosmos (vii)	Tunisia	Concession	**- %**	40.0%

(i) New Zealand Oil & Gas Limited acquired a further 15.0% interest in PMP 38158 (Tui) with an effective date of 1 October 2013.

(ii) PEP 51311 (Kakapo) was relinquished to the Crown on 29 July 2013.

(iii) PEP 54867 (Manaia) was relinquished to the Crown on 30 June 2014.

(iv) PEP 51558 (Kanuka) was relinquished to the Crown on 2 December 2013.

(v) New Zealand Oil & Gas Limited made a decision to withdraw from this concession claim. The Group has fully impaired the exploration and evaluation asset in Diodore at balance date.

(vi) The contract for MNK Kisaran PSC was awarded 19 June 2014.

(vii) NZOG reassigned its interest to Storm Ventures International in May 2013, which was approved by the Tunisian Government on 11 October 2013.

13 Oil and gas interests (continued)

	Group	
	2014	2013
	$'000	$'000
Share of oil and gas interests' assets and liabilities		
Current assets		
Cash and cash equivalents	**7,527**	7,329
Trade receivables *	**3,848**	713
Inventory	**581**	421
Non-current assets		
Petroleum interests **	**426,480**	369,383
Total assets	**438,436**	377,846
Current liabilities		
Short-Term Liabilities	**17,410**	8,300
Total liabilities	**17,410**	8,300
Net assets	**421,026**	369,546
Share of oil and gas interests' revenue, expenses and results		
Revenues *	**218**	788
Expenses	**(19,410)**	(22,340)
Profit before income tax	**(19,192)**	(21,552)

* Trade receivables and revenues above do not include petroleum sales in relation to the Tui and Kupe 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.

** Prior to amortisation of production assets and borrowings.

14 Exploration and evaluation assets

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Opening balance	**44,480**	14,893	**-**	-
Expenditure capitalised	**81,292**	43,792	**60**	-
Revaluation of USD exploration and evaluation assets	**(4,393)**	885	**-**	-
Expenditure written off *	**(29,529)**	(15,090)	**-**	-
Transfer of exploration and evaluation assets to development	**(36,923)**	-	**-**	-
At end of year	**54,927**	44,480	**60**	-

* The expenditure written off during the year relates to the following permits (refer to Note 13):

- PMP 38518 (Tui) - Oi 1 and Oi 2 exploration wells
- PEP 51311 (Kakapo)
- PEP 54867 (Manaia)
- PEP 51558 (Kanuka)
- PEP 51906 (Matuku) - Matuku 1 exploration well
- Diodore

15 Oil and gas assets

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
Opening balance	**198,634**	218,537	**-**	-
Expenditure capitalised	**8,796**	5,176	**-**	-
Disposal	**(857)**	-	**-**	-
Amortisation for the year	**(27,935)**	(22,334)	**-**	-
Depreciation for the year	**(238)**	-	**-**	-
Revaluation of USD production assets	**(2,759)**	125	**-**	-
Abandonment provision	**11,237**	(2,870)	**-**	-
Transfer from exploration and evaluation assets	**36,923**	-	**-**	-
Closing balance	**223,801**	198,634	**-**	-

Includes capitalised borrowing costs of $7.6 million at 30 June 2014 (2013: $8.4 million).

16 Other financial assets

	Group		Parent	
	2014 **$'000**	2013 $'000	**2014** **$'000**	2013 $'000
Pan Pacific Petroleum NL - Shares:				
Investment assets (fair value through other comprehensive income)	**7,437**	10,500	**-**	-
	7,437	10,500	**-**	-
Other				
Investment in subsidiaries (note 12)	**-**	-	**63,695**	56,765
Performance bonds	**2,362**	1,372	**1,505**	407
Refundable security deposits	**43**	43	**-**	-
	2,405	1,415	**65,200**	57,172
Total other financial assets	**9,842**	11,915	**65,200**	57,172

(a) Investment assets

Shares held in Pan Pacific Petroleum NL

The investment of 87.5 million shares in Pan Pacific Petroleum NL is measured at fair value at balance date of $7.4 million and is classified as an investment asset at fair value. The Group has designated the investment asset as fair value with movements through other comprehensive income as this best matches the Group's holding intention for this investment. All gains and losses being recognised in other comprehensive income.

(b) Performance bonds

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.

17 Payables

	Group		Parent	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Trade payables	**543**	2,180	**541**	558
Stock overlift lift payable	**1,906**	-	**-**	-
Royalties payable	**3,179**	5,941	**-**	-
Share of oil and gas interests' payables	**17,410**	8,300	**-**	-
Other payables	**9,311**	2,134	**3,066**	1,102
Total payables	**32,349**	18,555	**3,607**	1,660

Payables denominated in currencies other than the presentation currency comprise $3.7 million of payables denominated in US dollars; NZ dollar equivalent $4.2 million. (2013: US dollars $2.8 million; NZ dollar equivalent $3.7 million)

18 Restoration and rehabilitation provision

Provisions for restoration and rehabilitation are recognised where there is a present obligation as a result of exploration, development or production activities having been undertaken, and it is probable that an outflow of economic benefit will be required to settle the obligation. The estimated future obligations include the costs of removing facilities abandoning wells and restoring the affected area. Due to the long-term nature of the liability, the biggest uncertainty in estimating the provision is the costs that will be incurred.

The provision is determined by discounting expected future expenditure at an appropriate risk free rate relevant to the currency of the expected expenditure. Changes in estimates of the timing and amount of expected future expenditure will impact on the provision in future.

In the current year the risk free rate used to determine the provision for US Dollars was 2.53%.

	2014 $'000	**2013 $'000**
Carrying amount at start of year	30,197	32,392
Additional/(reduction) in provisions recognised	11,237	(2,870)
Revaluation of USD provisions	(2,172)	135
Unwinding of discount	1,911	540
Carrying amount at end of year	41,173	30,197

NZOG acquired a further 15% interest in the Tui area oil fields and successfully drilled an additional well, Pateke 4-H, which resulted in additional provision being recognised.

19 Deferred tax assets and liabilities

	Group		Parent	
	2014	2013	**2014**	2013
	$'000	$'000	**$'000**	$'000
The balance comprises temporary differences attributable to:				
Non-deductible provisions	**11,528**	8,455	**-**	-
Tax losses	**5,975**	-	**-**	-
Other items	**162**	97	**2,601**	98
	17,665	8,552	**2,601**	98
Other				
Exploration assets	**(9,685)**	(5,649)	**-**	-
Oil and gas assets	**(50,361)**	(37,641)	**-**	-
Capitalised borrowing costs	**(2,126)**	(2,413)	**-**	-
Sub-total other	**(62,172)**	(45,703)	**-**	-
Net deferred tax liabilities	**(44,507)**	(37,151)	**2,601**	98
Movements:				
Net deferred tax asset/(liability) at 1 July	**(37,151)**	(31,773)	**98**	72
Credited to the income statement (note 9)	**(7,401)**	(5,343)	**2,503**	26
Foreign exchange differences	**45**	(35)	**-**	-
Closing balance at 30 June	**(44,507)**	(37,151)	**2,601**	98

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.

20 Contributed equity of the Group and Parent

	2014 Number of Shares 000s	2013 Number of Shares 000s	**2014 $'000**	2013 $'000
(a) Share capital				
Ordinary shares				
Fully paid shares	**415,996**	407,252	**377,583**	370,641
Partly paid shares	**7,821**	7,005	**79**	70
Total share capital	**423,817**	414,257	**377,662**	370,711

(b) Movements in ordinary share capital

	2014 Number of Shares 000s	2013 Number of Shares 000s	**2014 $'000**	2013 $'000
Opening	**414,257**	402,308	**370,711**	358,584
Issues of ordinary shares during the year				
Shares issued	**8,123**	10,999	**6,938**	12,117
Partly paid shares issued	**1,437**	950	**13**	10
Closing balance of ordinary shares issued	**423,817**	414,257	**377,662**	370,711

Shares issued represent the shares issued under the Dividend Reinvestment Plan. A further 0.6 million shares were transferred from partly paid shares to fully paid shares during the year (2013: 3.5 million shares). The partly paid shares are sold on market with the proceeds included in the shares issued amount.

(c) Ordinary shares

Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

(d) Partly paid shares

Partly paid shares issued by the company to participants of the employee share ownership plan (ESOP) are paid by the participant to NZ$0.01 per share on issue. 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 26.

21 Reserves

	Group		Parent	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
(a) Reserves				
Revaluation reserve	**(6,882)**	(4,791)	**-**	-
Share based payments reserve	**54**	220	**54**	220
Foreign currency translation reserve	**(18,738)**	(11,968)	**-**	-
Share revaluation reserve	**-**	-	**6,465**	6,465
Total reserves	**(25,566)**	(16,539)	**6,519**	6,685
Movements:				
Revaluation reserve				
Balance 1 July	**(4,791)**	(4,925)	**-**	-
Fair value gain/(loss) through other comprehensive income	**(2,091)**	134	**-**	-
Balance 30 June	**(6,882)**	(4,791)	**-**	-
Share-based payments reserve				
Balance 1 July	**220**	345	**220**	345
Share based payment expense for the year	**154**	201	**154**	201
Transfer of expired share based payments during the year	**(320)**	(326)	**(320)**	(326)
Balance 30 June	**54**	220	**54**	220
Foreign currency translation reserve				
Balance 1 July	**(11,968)**	(12,663)	**-**	-
Foreign currency translation differences for the year	**(6,770)**	695	**-**	-
Balance 30 June	**(18,738)**	(11,968)	**-**	-

(b) Nature and purpose of reserves

(i) Revaluation reserve
This reserve relates to the revaluation of Pan Pacific Petroleum NL investment. The gains and losses arising from changes in fair value of the investment are recognised through the statement of comprehensive income and are not transferred to the income statement on disposal, although they may be reclassified within equity.

(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. Subsidiary companies with a functional currency different to the Group are outlined in note 12. The reserve is recognised in the income statement when the net investment is disposed of.

(iii) Share revaluation reserve
This reserve relates to the circumstances where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the income statement when the wholly owned subsidiary is disposed of.

22 Earnings per share

	Group 2014 Cents	Group 2013 Cents
(a) Basic earnings per share		
Basic earnings per share	**2.4**	6.5

(b) Reconciliations of earnings used in calculating earnings per share

	Group 2014 $'000	Group 2013 $'000
Profit/(loss) for the year	**10,078**	25,945

(c) Weighted average number of shares used as the denominator

	Group 2014 Number 000s	Group 2013 Number 000s
Weighted average number of ordinary shares used in calculating basic earnings per share	**411,831**	401,695

Basic earnings per share is equal to the diluted earnings per share as there is no instrument with dilutive potential.

23 Reconciliation of profit after income tax to net cash inflow from operating activities

	Group		Parent	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Profit/(loss) for the year	**10,078**	25,945	**(4,431)**	6,012
Depreciation and amortisation	**28,563**	22,334	**390**	93
Deferred tax	**7,401**	5,343	**(2,503)**	(26)
Reversal of impairment of loan	**-**	(2,500)	**-**	-
Exploration expenditure included in investing activities	**30,036**	16,105	**-**	-
Impairment of related party loans and investment in subsidiaries	**-**	-	**21,362**	13,775
Share based payment expense	**154**	201	**154**	201
Net foreign exchange differences	**4,438**	(365)	**4,165**	288
Dividend income	**-**	-	**(23,564)**	(25,151)
Other	**1,763**	781	**(65)**	91
Change in operating assets and liabilities				
(Increase)/decrease in trade debtors	**5,526**	(12,889)	**(1,785)**	(6,477)
Increase/(decrease) in trade creditors	**8,998**	(699)	**2,732**	3,317
Increase (decrease) in inventory	**(5,490)**	-	**-**	-
Increase/(decrease) in tax payable	**(3,514)**	-	**3,919**	-
Net cash inflow from operating activities	**87,953**	54,256	**374**	(7,877)

24 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 and capital commitments that are denominated in a currency other than the Company's functional currency, New Zealand dollars ($), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 10, 11 and 17.

(ii) 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 petroleum interests.

(iii) Concentrations of interest rate exposure
The Group's main interest rate risk arises from short-term deposits.

(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 arrangement.

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.

(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:

GROUP **30 June 2014**	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	32,349	-	-	-	-	32,349
Total non-derivative liabilities	32,349	-	-	-	-	32,349

30 June 2013	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	18,555	-	-	-	-	18,555
Total non-derivative liabilities	18,555	-	-	-	-	18,555

At 30 June 2014 the Group had no derivatives to settle (2013: nil).

PARENT **30 June 2014**	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	3,607	-	-	-	-	3,607
Total non-derivative liabilities	3,607	-	-	-	-	3,607

30 June 2013	6 months or less $'000	6-12 months $'000	1-2 years $'000	2-5 years $'000	More than 5 years $'000	Contractual cash flows $'000
Payables	1,660	-	-	-	-	1,660
Total non-derivative liabilities	1,660	-	-	-	-	1,660

(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 company 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, equity securities and currency risks. The Group's exposure to these risks is described in note 24(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 2014 would be to decrease the Group profit before tax by $1.6 million and decrease the foreign currency translation reserve in equity by $2.9 million (2013: $3.3 million decrease on profit before tax and $0.6 million decrease in the foreign currency translation reserve).

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 $1.1 million (2013: $1.6 million increase), based on maintaining current cash balances.

The impact of an increase in the value of equity securities held by the Group at balance date, which are categorised as fair value through other comprehensive income, by 5% would increase the revaluation reserve in equity by $0.4 million (2013: $0.5 million increase).

(f) Recognised assets and liabilities

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

24 Financial risk management (continued)

(g) Fair value estimation

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets that are measured at fair value. The parent has no assets or liabilities that are measured at fair value.

Group - At 30 June 2014	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**7,437**	-	**-**	7,437
Total assets measured at fair value	**7,437**	-	**-**	7,437

Group - At 30 June 2013	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total balance $'000
Assets				
Financial assets at fair value through other comprehensive income				
Shares held in Pan Pacific Petroleum NL	**10,500**	-	**-**	10,500
Total assets measured at fair value	**10,500**	-	**-**	10,500

The fair value of financial instruments traded in active markets is based on quoted market prices at balance date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm’s length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily NZX 50 equity investments classified as fair value through comprehensive income.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

The following table presents the changes in fair value of level 3 instruments:

24 Financial risk management (continued)

(h) Financial instruments by category

Group	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2014			
Assets			
Cash and cash equivalents	-	135,075	135,075
Trade and other receivables	-	26,134	26,134
Other financial assets	7,437	2,405	9,842
	7,437	163,614	171,051
Liabilities			
Payables	-	32,349	32,349
Borrowings	-	776	776
	-	33,125	33,125

Group	Fair value through other comprehensive income $'000	Amortised cost $'000	Total at carrying value $'000
At 30 June 2013			
Assets			
Cash and cash equivalents	-	158,018	158,018
Trade and other receivables	-	30,013	30,013
Other financial assets	10,500	1,415	11,915
	10,500	189,446	199,946
Liabilities			
Payables	-	18,555	18,555
Borrowings	-	197	197
	-	18,752	18,752

All Parent financial instruments are held at amortised cost.

25 Related party transactions

(a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

(b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: P W Griffiths; R J Finlay; P G Foley; A T N Knight; A R Radford (resigned 29 October 2013); R D Ritchie (appointed 29 October 2013); D R Scoffham and M Tume.

The Directors named above received no remuneration or other benefits from the subsidiary companies directly during the year, as their remuneration from New Zealand Oil & Gas Limited covers all payments received for services.

(c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2014 and 30 June 2013 is set out below. The key management personnel are all the directors (executive and non-executive) and remaining management of the Company.

	Short-term benefits $'000	Post-employ ment benefits $'000	Other long-term benefits $'000	Termination benefits $'000	Share-based payments $'000	Total $'000
2014						
Management	**2,148**	**-**	**-**	**-**	**39**	**2,187**
Directors	**1,152**	**-**	**-**	**-**	**73**	**1,225**
	3,300	**-**	**-**	**-**	**112**	**3,412**
2013						
Management	1,955	-	-	-	50	2,005
Directors	990	-	-	-	119	1,109
	2,945	-	-	-	169	3,114

(d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, is set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 26.

Mr A R Radford is a director of and indirectly holds shares in Pan Pacific Petroleum NL (PPP).

Mr P G Foley is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison is a legal services provider to the Group on normal commercial terms and conditions.

Mr P W Griffiths is a director and shareholder of NZ Diving & Salvage Limited. NZ Diving & Salvage Limited provided site survey and coring services to a Joint Venture holding the permit PEP52181 (Kaheru), of which NZOG is the Operator. The service contract was awarded to NZ Diving & Salvage following a robust tender process and approval by the Joint Venture parties. Amounts were billed based on commercial rates and were due and payable under normal payment terms.

(e) Subsidiaries, Associates and Joint Ventures

Related parties of the Company include those entities identified in notes 12, 13, 14 and 16 as subsidiaries and oil and gas interests.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured.

There have been no material transactions with related parties during the year.

26 Share-based payments

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non-executive Director) of the Company to whom an offer to participate is made by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee, in its discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

1. Restriction periods

Each partly paid share is issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This is usually 2 years. There is also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

2. Issue price

The issue price of each partly paid share is set at the time the offer is made to the participant and is currently set at the lesser of:

- a 20% premium to the Average Market Price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and

- the last sale price of the Company's ordinary shares on the Business Day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Company's ordinary shares over the 20 Business Days prior to the Final Date).

The pricing model ensures that the participant does not receive a share at a discount to market price at the time the final payment is made but does provide some protection if the market price reduces after the original offer date.

Participants are required to pay $0.01 per share at the time of issue.

3. Rights

The rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Company. The partly paid shares rank equally with the ordinary shares in the Company. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Company, are a fraction equal to the proportion represented by the amount paid up in respect of the share as against the issue price set under the ESOP.

Issued within Year Ended	Grant Date (Last in Year)	Final Date (Last in Year)	Average Exercise Price	Balance at start of Year 000s	Issued during the Year 000s	Sold during the Year 000s	Forfeited during the Year 000s	Balance at end of the Year 000s	Fully vested at end of Year 000s
30/06/2010	Jan-10	Nov-14	$ 1.54	850.0	-	-	(150.0)	700.0	700.0
30/06/2011	Jan-11	Nov-15	$ 1.64	1,105.0	-	(10.0)	(145.0)	950.0	800.0
30/06/2012	May-12	Apr-16	$ 0.95	3,900.0	-	-	-	3,900.0	3,900.0
30/06/2013	May-13	May-18	$ 1.12	950.0	-	-	-	950.0	-
30/06/2014	Nov-13	Aug-18	$ 1.01	-	1,437.0	-	(116.0)	1,321.0	-
				6,805.0	1,437.0	(10.0)	(411.0)	7,821.0	5,400.0
Weighted average exercise price				$ 1.20	$ 1.01	$ 2.04	$ 1.42	$ 1.16	$ 1.17

Share based payments are recognised based on the fair value of partly paid shares offered to employees at the issue date. The fair value at issue date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the partly paid shares, the vesting criteria, the non-tradable nature of the partly paid shares, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. The assessed fair value (for NZ IFRS 2 purposes) at issue date of partly paid share issued during the year ended 30 June 2014 was 4 cents per share (30 June 2013 was 6 cents per share).

The model inputs for partly paid shares issued during the year ended 30 June 2014, in addition to the issue price, issue date and final date as summarised in the above table, include:

(a) shares are paid to $0.01 on issue

(b) partly paid shares have a five year life and are exercisable after two years from the issue date

(c) market price on issue date: $0.86

(d) expected price volatility of the company's shares: 25%

(e) expected gross dividend per share: 9.7%

(f) risk free interest rate on the issue date: 2.63%

The expected price volatility is based on the historic volatility.

27 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.

	Group		Parent	
	2014 $'000	2013 $'000	**2014 $'000**	2013 $'000
Within one year	**354**	354	**354**	354
Later than one year and not later than five years	**677**	1,031	**677**	1,031
	1,031	1,385	**1,031**	1,385

During the year ended 30 June 2014 $354,000 was recognised as an expense in the income statement in respect of operating leases (2013: $363,000).

Production commitments

The Company 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 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by the Group to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US$13.7 million.

(c) Contingent liabilities

As at 30 June 2014 the Company had no material contingent liabilities (2013:$Nil).

Independent auditor’s report

To the shareholders of New Zealand Oil & Gas Limited

Report on the company and group financial statements

We have audited the accompanying financial statements of New Zealand Oil & Gas Limited ("the company") and the group, comprising the company and its subsidiaries, on pages 2 to 40. The financial statements comprise the statements of financial position as at 30 June 2014, the income statement and the 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, for both the company and the group.

Directors' responsibility for the company and group financial statements

The directors are responsible for the preparation of company and group financial statements in accordance with generally accepted accounting practice in New Zealand and International Reporting Standards that give a true and fair view of the matters to which they relate, and for such internal control as the directors determine is necessary to enable the preparation of company and group 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 company and group financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the company and group financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the company and group financial statements. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company and group’s preparation of the financial statements that give a true and fair view of the matters to which they relate 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 company and 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 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 company and group in relation to taxation, business advisory and accounting technical advice. These matters have not impaired our independence as auditor of the company and group. The firm has no other relationship with, or interest in, the company and group.

Opinion

In our opinion the financial statements on pages 2 to 40:

- comply with generally accepted accounting practice in New Zealand;
- comply with International Financial Reporting Standards;
- give a true and fair view of the financial position of the company and the group as at 30 June 2014 and of the financial performance and cash flows of the company and the group for the year then ended.

Report on other legal and regulatory requirements

In accordance with the requirements of sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993, we report that:

- we have obtained all the information and explanations that we have required; and
- in our opinion, proper accounting records have been kept by New Zealand Oil & Gas Limited as far as appears from our examination of those records.

KPMG

2 September 2014
Wellington