

INTERIM REPORT 2017





The last eight months have been a time of transformation for New Zealand Oil & Gas as the Company successfully sold its two major producing assets.

The half-year statements in this report do not include the profit on sale of the company's interest in the Kupe gas field, which was sold for \$168 million, nor the disposal of our interest in the Tui oil field.

Both transactions were completed with an effective date of 1 January 2017 and therefore the full-year financials will give a more appropriate picture of the company's financial position. In particular, net tangible assets will materially change.

Cash flows were strong during the past six months.

In the twelve months prior to the release of our half-year financial statements, our share price increased by over 49 per cent. This was one of the best share price performances last year among NZX companies with a market capitalisation in excess of \$150 million. In addition, shareholders received a fully imputed 4 cents per share dividend in October.

A net loss in the six months to 31 December 2016 was principally due to an impairment by our ASX-listed subsidiary, Cue Energy, of its Maari asset; a loss on Cue's sale of its loss-making Pine Mills field in the United States; lower receipts from the Tui field due to production decline; production outages at Kupe and Maari; and costs associated with de-recognition of deferred tax assets related to Tui and Kupe.

Cue is now a much lower cost and more focussed business.

Our corporate costs are considerably reduced, with fewer staff and lower corporate overhead.

Cash paid for exploration in the six months was trimmed to \$4.0 million, down from \$9.4 million in the previous year. Capital spending on oil and gas assets was \$3.0 million, down from \$7.7 million.

The company is entering a new stage of its life following the sale of our two major assets.

Progress will be more obvious in our full year accounts, when the impact of returning \$100 million of capital to shareholders in May is expected to be included.

Growth is expected to be achieved by deploying our remaining cash to acquire quality assets at a scale, risk-profile and price that suit our size.

In addition, the company is participating in two potentially transformational deepwater prospects off the South Island, including the Barque prospect that could hold 11 trillion cubic feet of gas and 1.5 billion barrels of oil or gas condensate liquid [best estimate, unrisks, in place across three horizons]. This prospect alone could transform the national economy if partners can be sourced to help share drilling costs and the permits are then successfully drilled.



Andrew Jefferies
Chief Executive Officer
New Zealand Oil & Gas Ltd.

Financial Summary

Condensed Interim Financial Statements For the half year ended 31 December 2016

The condensed interim financial statements of New Zealand Oil & Gas Limited, presented on pages 5 to 15, are approved for and on behalf of the New Zealand Oil & Gas Limited Board of Directors on 28 February 2017:



Rodger Finlay
Chairman



Mark Tume
Director

Condensed Statement of Cash Flows

For the half year ended 31 December 2016

	Unaudited Half Year 31 Dec 2016 \$000	Unaudited Half Year 31 Dec 2015 \$000	Audited Full Year 30 Jun 2016 \$000
Cash flows from operating activities			
Receipts from customers	55,317	75,133	136,840
Interest earned	241	475	-
Production and marketing expenditure	(21,196)	(23,423)	(46,082)
Supplier and employee payments (inclusive of GST)	(8,663)	(10,591)	(21,304)
Income tax paid	(10,573)	(5,934)	(11,827)
Royalties paid	(1,988)	(3,938)	(6,349)
Other	110	-	4,917
Net cash inflow from operating activities	13,248	31,722	56,195
Cash flows from investing activities			
Exploration and evaluation expenditure	(4,001)	(9,413)	(23,466)
Oil and gas asset expenditure	(3,005)	(7,667)	(11,508)
Acquisition of subsidiary, net of cash acquired	(1,216)	-	-
Purchase of oil and gas interest	(12)	-	-
Property, plant and equipment	-	-	(170)
Proceeds from sale of asset	918	-	-
Net cash outflow from investing activities	(7,316)	(17,080)	(35,144)
Cash flows from financing activities			
Issue of shares	(2)	78	78
Repayment of capital/cancellation of shares	(9,433)	-	(1,046)
Dividends paid	(13,512)	-	-
Other	(14)	(51)	(77)
Net cash [outflow]/inflow from financing activities	(22,961)	27	(1,045)
Net (decrease)/increase in cash and cash equivalents	(17,031)	14,669	20,006
Cash and cash equivalents at the beginning of period	96,811	83,659	83,659
Exchange rate effects on cash and cash equivalents	1,322	(1,841)	(6,854)
Cash and cash equivalents at end of the period	81,102	96,487	96,811

Cash and cash equivalents in the Condensed Statement of Financial Position do not agree to the cash and cash equivalents in the Condensed Statement of Cash Flows for the period. Refer to note 8 on discontinued operations for more information.

Condensed Statement of Comprehensive Income

For the half year ended 31 December 2016

	Notes	Unaudited Half Year 31 Dec 2016 \$000	Unaudited Half Year 31 Dec 2015 \$000	Audited Full Year 30 Jun 2016 \$000
Revenue		29,252	41,054	69,092
Operating costs	4	(16,384)	(24,172)	(36,348)
Exploration and evaluation costs expensed		(5,334)	(10,949)	(21,487)
Other income		104	4,173	4,261
Other expenses		(8,135)	(9,700)	(16,964)
Gross (loss)/profit		(497)	406	(1,446)
Amortisation of production assets		(12,749)	(17,904)	(27,768)
Asset impairment		(7,694)	(35,465)	(26,605)
Net finance income/(costs)		599	903	(2,921)
Loss before income tax and royalties		(20,341)	(52,060)	(58,740)
Income tax (expense)/credit		(9,452)	2,906	4,348
Royalties expense		(844)	(1,174)	(1,740)
Loss after tax from continuing operations		(30,637)	(50,328)	(56,132)
Profit after tax from discontinuing operations	8	5,260	5,112	4,338
Loss for the period		(25,377)	(45,216)	(51,794)
Loss for the period attributable to:				
Shareholders of the Group		(17,977)	(27,588)	(29,763)
Non-controlling interest		(7,400)	(17,628)	(22,031)
Loss for the period		(25,377)	(45,216)	(51,794)
Other comprehensive income:				
Items that may be classified to profit and loss				
Foreign currency translation differences		520	(4,621)	(7,967)
Total comprehensive loss for the period, net of tax		(24,857)	(49,837)	(59,761)
Total comprehensive income for the year is attributable to:				
Shareholders of the Group		(17,457)	(32,209)	(35,942)
Non-controlling interest		(7,400)	(17,628)	(23,819)
Total comprehensive loss for the year		(24,857)	(49,837)	(59,761)
Total comprehensive income for the year is attributable to:				
Continuing operations		(30,117)	(55,349)	(66,753)
Discontinuing operations		5,719	5,724	7,656
Discontinuing operations - non-controlling interest		(459)	(212)	(664)
Total comprehensive loss for the year		(24,857)	(49,837)	(59,761)
Basic earnings per share attributable to shareholders (cents per share)		(7.7)	(7.9)	(8.6)

The above consolidated statement should be read in conjunction with the accompanying notes on pages 9 to 15.

Condensed Statement of Financial Position

As at 31 December 2016

	Notes	Unaudited Half Year 31 Dec 2016 \$000	Audited Full Year 30 Jun 2016 \$000
ASSETS			
Current assets			
Cash and cash equivalents		74,799	96,811
Receivables and prepayments		7,947	13,156
Inventories		8,988	9,166
Assets held for sale	8	140,269	2,088
Total current assets		232,003	121,221
Non-current assets			
Exploration and evaluation assets	6	14,901	14,580
Oil and gas assets	7	54,265	207,937
Plant, property and equipment		165	193
Intangible assets		839	1,042
Other financial assets		1,888	1,891
Total non-current assets		72,058	225,643
Total assets		304,061	346,864
LIABILITIES			
Current liabilities			
Payables		10,221	17,399
Current tax		(1,940)	3,175
Other current		1,391	1,548
Liabilities associated with assets held for sale	8	65,039	-
Total current liabilities		74,711	22,122
Non-current liabilities			
Borrowings		1,187	1,137
Rehabilitation provision		48,539	77,458
Other provisions		6,565	6,350
Deferred tax		154	18,597
Total non-current liabilities		56,445	103,542
Total liabilities		131,156	125,664
Net assets		172,905	221,200
EQUITY			
Share capital		308,636	318,089
Reserves		1,582	1,051
Retained earnings		(142,822)	(111,382)
Attributable to shareholders of the Group		167,396	207,758
Non-controlling interest in subsidiaries		5,509	13,442
Total equity		172,905	221,200
Net asset backing per share (cents per share)		53	64
Net tangible asset backing per share (cents per share)		48	59

The above consolidated statement should be read in conjunction with the accompanying notes on pages 9 to 15.

Condensed Statement of Changes in Equity

For the half year ended 31 December 2016

	Attributable to equity holders of New Zealand Oil & Gas Limited					
	Issued capital \$000	Reserves \$000	Retained earnings \$000	Total \$000	Non-controlling interest \$000	Total equity \$000
Balance as at 1 July 2015	319,060	[1,563]	[71,131]	246,366	35,473	281,839
Comprehensive income						
Loss for the period	-	-	[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 loss	-	[7,967]	[29,763]	[37,730]	[22,031]	[59,761]
Transactions with owners						
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]	-	-	-
Audited balance as at 30 June 2016	318,089	1,051	[111,382]	207,758	13,442	221,200
Balance as at 1 July 2016	318,089	1,051	[111,382]	207,758	13,442	221,200
Comprehensive income						
Loss for the period	-	-	[17,928]	[17,928]	[7,449]	[25,377]
Other comprehensive income, net of tax						
Foreign currency translation differences	-	520	-	520	-	520
Total comprehensive (loss)/income	-	520	[17,928]	[17,408]	[7,449]	[24,857]
Transactions with owners						
Buyback of issued shares	[9,433]	-	-	[9,433]	-	[9,433]
Partly paid shares issued	[20]	-	-	[20]	-	[20]
Share based payment	-	11	-	11	-	11
Dividends declared	-	-	[13,512]	[13,512]	-	[13,512]
Change in share of non-controlling interest	-	-	-	-	[1,133]	[1,133]
Non-controlling interest adjustment on disposal of Pine Mills	-	-	-	-	649	649
Unaudited balance as at 31 December 2016	308,636	1,582	[142,822]	167,396	5,509	172,905

The above consolidated statement should be read in conjunction with the accompanying notes on pages 9 to 15.

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

1. GENERAL INFORMATION

New Zealand Oil & Gas Limited (the Company) 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 condensed interim financial statements ["financial statements"] presented as at and for the half year ended 31 December 2016 are for New Zealand Oil & Gas Limited, its subsidiaries and the interest in associates and jointly controlled operations [together referred to as the "Group"].

These financial statements do not include all the notes normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016.

When required by accounting standards, comparative figures have been adjusted to conform to changes in presentation for the current reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements for the half year ended 31 December 2016 have been prepared in accordance with New Zealand Generally Accepted Accounting Practices (NZ GAAP) and the NZ IAS 34 Interim Financial Reporting, as appropriate for profit oriented entities.

Foreign currency translation reserve

Some subsidiaries of the Group have functional currencies that are different to the presentation currency, which on translation give rise to foreign exchange differences that are recognised as a component of equity.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2016.

3. SEGMENT INFORMATION

Unaudited Half year to 31 December 2016	Tui oil \$000	Kupe oil & gas \$000	Oil & gas exploration \$000	Other & unallocated \$000	Cue Energy Resources Ltd \$000	Total \$000
Sales to external customers	10,179	-	-	-	19,073	29,252
Total sales revenue	10,179	-	-	-	19,073	29,252
Other income	-	-	-	104	-	104
Total revenue and other income	10,179	-	-	104	19,073	29,356
Impairment of oil and gas assets	-	-	-	-	(7,694)	(7,694)
Segment result	(6,274)	-	(1,442)	(4,273)	(8,951)	(20,940)
Other net finance income	-	-	-	-	-	599
Loss before income tax and royalties	-	-	-	-	-	(20,341)
Income tax and royalties expense	-	-	-	-	-	(10,296)
Loss after tax from continuing operations	-	-	-	-	-	(30,637)
Profit/(loss) after tax from discontinuing operations	-	7,557	-	-	(2,297)	5,260
Loss for the period	-	7,557	-	-	(2,297)	(25,377)
Segment assets	18,068	-	14,901	-	36,197	69,166
Asset held for sale	-	140,269	-	-	-	140,269
Unallocated assets	-	-	-	-	-	94,626
Total assets	-	140,269	-	-	-	304,061
Included in segment results	-	-	-	-	-	-
Depreciation and amortisation expense	8,105	-	-	224	4,656	12,985

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

3. SEGMENT INFORMATION (CONTINUED)

Audited	Tui oil	Kupe	Oil & gas	Other &	Cue Energy	Total
Full year to 30 June 2016	\$000	oil & gas	exploration	unallocated	Resources	\$000
		\$000	\$000	\$000	Ltd \$000	
Sales to external customers	19,546	-	-	-	49,546	69,092
Total sales revenue	19,546	-	-	-	49,546	69,092
Other income	-	-	-	181	4,080	4,261
Total revenue and other income	19,546	-	-	181	53,626	73,353
Impairment of oil and gas assets	-	-	-	-	(26,605)	(26,605)
Segment result	(11,422)	-	(4,044)	(8,424)	(31,929)	(55,819)
Other net finance costs						(2,921)
Loss before income tax and royalties						(58,740)
Income tax and royalties credit						2,607
Loss after tax from continuing operations						(56,132)
Profit/(loss) after tax from discontinuing operations	-	7,656	-	-	(3,318)	4,338
Loss for the year						(51,794)
Segment assets	27,274	133,236	14,580	-	47,427	225,517
Asset held for sale	0	0	0	0	2,088	2,088
Unallocated assets						122,259
Total assets						346,864
Included in segment results						
Depreciation and amortisation expense	13,895	21,176	-	469	13,910	49,450

Unaudited	Tui oil	Kupe	Oil & gas	Other &	Cue Energy	Total
Half year to 31 December 2015	\$000	oil & gas	exploration	unallocated	Resources	\$000
		\$000	\$000	\$000	Ltd \$000	
Sales to external customers	12,940	-	-	-	28,114	41,054
Total sales revenue	12,940	-	-	-	28,114	41,054
Other income	-	-	-	93	4,080	4,173
Total revenue and other income	12,940	-	-	93	32,193	45,227
Impairment of oil and gas assets	(7,934)	-	-	-	(27,531)	(35,465)
Segment result	(15,307)	-	(1,008)	(4,194)	(32,455)	(52,964)
Other net finance costs						903
Loss before income tax and royalties						(52,061)
Income tax and royalties expense						1,732
Loss after tax from continuing operations						(50,329)
Profit after tax from discontinuing operations	-	5,112	-	-	-	5,112
Loss for the period						(45,217)
Segment assets	27,443	142,158	15,145	-	54,478	239,224
Unallocated assets						124,299
Total assets						363,253
Asset held for sale	0	0	0	0	0	0
Included in segment results						
Depreciation and amortisation expense	9,120	10,859	-	237	8,802	29,018

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

4. OPERATING COSTS

	Unaudited Half Year 31 Dec 2016 \$000	Unaudited Half Year 31 Dec 2015 \$000	Audited Full Year 30 Jun 2016 \$000
Production expenditure	14,750	19,954	33,561
Carbon emission expenditure	91	29	333
Insurance expenditure	291	560	961
Movement in inventory	1,252	3,629	1,493
Total operating costs	16,384	24,172	36,348

5. OIL AND GAS INTERESTS

	Unaudited Half Year 31 Dec 2016 \$000	Unaudited Half Year 31 Dec 2015 \$000	Audited Full Year 30 Jun 2016 \$000
Share of oil and gas interests' assets and liabilities			
Current assets			
Cash and cash equivalents	6,462	8,603	7,347
Trade receivables*	6,044	7,551	7,002
Inventory	2,052	1,604	2,440
Non-current assets			
Petroleum interests**	457,488	542,425	479,641
Total assets	472,046	560,183	496,430
Current liabilities			
Short-term liabilities	7,924	20,396	7,594
Total liabilities	7,924	20,396	7,594
Net assets	464,122	539,787	488,836
Share of oil and gas interests' revenue, expenses and results			
Revenues*	31	28,175	113
Expenses	(18,130)	(23,957)	(38,584)
Profit/(loss) before income tax	(18,099)	4,218	(38,471)

Share of oil and gas interests includes the Group's interest in assets held for sale.

* 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.

** Prior to amortisation of production assets, borrowings and impairment adjustments in the Group's own account.

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

6. EXPLORATION AND EVALUATION 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.

	Unaudited Half Year 31 Dec 2016 \$000	Audited Full Year 30 Jun 2016 \$000
Opening balance	14,580	15,258
Revaluation of USD exploration and evaluation assets	321	[678]
Closing balance	14,901	14,580

7. OIL AND GAS ASSETS

	Unaudited Half Year 31 Dec 2016 \$000	Audited Full Year 30 Jun 2016 \$000
Opening balance	207,937	289,356
Expenditure capitalised	2,946	6,843
Impairment (i)	[7,694]	[26,605]
Amortisation	[19,710]	[51,043]
Depreciation	-	[30]
Revaluation of foreign currency production assets	[1,473]	[7,482]
Abandonment provision	[708]	1,005
Transfer of oil and gas asset to 'assets held for sale' (ii)	[127,033]	[4,107]
Closing balance	54,265	207,937

(i) At 31 December 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 resulted in an impairment loss of \$7.7 million (30 June 2016: \$26.6 million) being recognised. The \$7.7 million impairment related to the Maari oil and gas asset (30 June 2016: 26.6 million) and is included in asset impairment in the profit and loss.

Estimates of recoverable amounts of oil and gas assets are based on their value in use with a discount rate of 10% applied or where available their realised value. The oil price assumptions used are based on forward prices, rising to a consensus mean after 4 years.

(ii) The Kupe oil and gas asset has been transferred to 'Assets held for sale' and is now treated as a current asset – refer to note 8 and 12.

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

8. DISCONTINUED OPERATIONS

Non-current assets and disposal groups are classified as held for sale and measured at the lower of carrying amount and fair value less costs to sell, where carrying amount will be recovered principally through sale as opposed to continued use.

Classification as 'held for sale' occurs when: management has committed to a plan for immediate sale; the sale is expected to occur within one year from the date of classification; and active marketing of the asset has commenced.

A discontinued operation is a component of an entity, being a cash-generating unit that either has been disposed of, or is classified as held for sale and: represents a separate major line of business or geographical area of operations; is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with the view to resale.

On 14 December, the Group approved the sale of its 15% interest in the Kupe gas and oil field off Taranaki. The sale was subsequently finalised on 1 January 2017 with the risk and rewards of the permit passing on that date. The assets and liabilities are presented as held for sale in the balance sheet and the results for the period as a discontinued operation. Refer to note 12, subsequent events, for further disclosure on the transaction.

In addition, Cue Energy announced on 10 November 2016 the sale of their 80% interest in Pine Mills to Mosman Oil and Gas for US dollars \$0.975 million.

The impact on the Group following the sale of these components is shown below. The results for the period have been presented as discontinued in the Income Statement for current and comparative periods.

	Unaudited Half Year 31 Dec 2016 \$000	Unaudited Half Year 31 Dec 2015 \$000	Audited Full Year 30 Jun 2016 \$000
Results of discontinued operations			
Revenue	23,016	24,348	51,008
Operating costs	(5,596)	(7,318)	(14,869)
Exploration and evaluation costs expensed/(credited)	2	1	(17)
Other income	1,530	1,217	2,367
Other expenses	12	(452)	(617)
Results from operating activities excluding amortisation, impairment and net finance costs	18,964	17,796	37,872
Amortisation of production assets	(7,025)	(10,859)	(21,346)
Asset impairment	-	-	(1,308)
Loss on sale of Pine Mills	(1,999)	-	-
Net finance costs	(209)	(372)	(752)
Profit before income tax and royalties	9,731	6,565	14,466
Income tax expense	(2,945)	-	(7,852)
Royalties expense	(1,526)	(1,453)	(2,276)
Profit after tax from discontinuing operations	5,260	5,112	4,338
Cash flows from discontinued operations			
Net cash inflow from operating activities	14,878	12,855	27,614
Net cash outflow from investing activities	(1,728)	(2,035)	(3,934)
Net cash inflow from financing activities	-	-	2,433
Net increase in cash generated by discontinuing operations	13,150	10,820	26,113

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

8. DISCONTINUED OPERATIONS (CONTINUED)

	Unaudited Half Year 31 Dec 2016 \$000
Production asset reclassified as asset held for sale	
Current assets	
Cash and cash equivalents	6,303
Receivables and prepayments	4,947
Inventories	1,944
Total current assets	13,194
Non-current assets	
Oil and gas assets	127,033
Property, plant and equipment	-
Other financial assets	42
Total non-current assets	127,075
Total assets	140,269
Current liabilities	
Payables	10,332
Current tax liabilities	1,751
Total current liabilities	12,083
Non-current liabilities	
Rehabilitation provision	29,303
Deferred tax liability	23,653
Total non-current liabilities	52,956
Total liabilities	65,039
Net assets	75,230

9. TAXATION – DEFERRED TAXATION

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 the related tax benefit will be realised. 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 the existing temporary timing differences. As at 31 December 2016 Stewart Petroleum Company Ltd (SPC), a wholly owned subsidiary of the Group, has a deferred tax asset in New Zealand of \$13.6 million (30 June 2016: \$11.8 million).

The Group has recognised only \$4.1 million of deferred tax relating to the SPC New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated due to the sale of the Kupe gas and production asset.

10. RELATED PARTIES

All transactions and outstanding balances with 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 that the Group has transactions with 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 of the Group.

Notes to the Condensed Interim Financial Statements

For the half year ended 31 December 2016

11. COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

a) Evaluation and 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) 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 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 the period to 31 December 2017 is currently estimated to be US\$ 7.7 million. See note 12.

12. SUBSEQUENT EVENTS

On 4 January 2017, the Group announced that the sale of its 15% interest in the Kupe gas and oil field off Taranaki had completed on 1 January 2017 as all conditions were satisfied. Genesis Energy paid \$168 million for the Group's shares in three entities that hold its Kupe interest and included the Group's entitlement to overriding royalty interests. Post 31 December 2016 the related assets and liabilities, presented as held for sale in the Condensed Statement of Financial Performance, will be derecognised and the related gain on sale will be determined and recorded.

On 14 February 2017, the Group accepted an offer from Tamarind for its 27.5 per cent interest in the Tui oil fields off Taranaki, New Zealand. Tamarind will pay the Group US dollars \$0.75 million in exchange for all shares in its Tui holding Company, Stewart Petroleum. Stewart Petroleum's assets and liabilities include a 27.5 per cent interest in the Tui field, and inventory of USD\$4.7 million of oil. The working capital of \$6.0 million will be transferred to Tamarind. Tamarind will also assume all field retirement obligations.

The Tui related assets and liabilities were not presented as held for sale in the Balance Sheet or a discontinued operation in the Income Statement as the sale was not considered 'highly probable' at 31 December 2016.



Independent review report

To the stakeholders of New Zealand Oil & Gas Limited

We have completed a review of the condensed interim financial statements (the "financial statements") of New Zealand Oil & Gas Limited ("the Group") on pages 5 to 15 which comprise the condensed statement of financial position as at 31 December 2016, and the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the period ended on that date, and a summary of significant accounting policies and other explanatory information.

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the Group's shareholders those matters we are required to state to them in the independent review 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 Group's shareholders as a body, for our review work, this report or any of the conclusions we have formed.

Directors' responsibilities

The directors of the Group are responsible for the preparation and fair presentation of interim financial statements in accordance with NZ IAS 34 Interim Financial Reporting and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibilities

Our responsibility is to express a conclusion on the interim financial statements based on our review. We conducted our review in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity*. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting. As the auditor of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on those financial statements.

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.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group do not present fairly, in all material respects, the financial position of the Group as at 31 December 2016, and of its financial performance and its cash flows for the period ended on that date, in accordance with NZ IAS 34 Interim Financial Reporting.

A handwritten signature of the KPMG firm, written in blue ink, appearing as 'KPMG' with a stylized flourish.

28 February 2017
Wellington

Permits

New Zealand Oil & Gas held the following interests at 31 December 2016

New Zealand	Taranaki	Kupe [PML 38146]*	15% New Zealand Oil & Gas 50% Origin Energy [Operator] 31% Genesis Energy 4% Mitsui	
		Tui [PML 38158]*	27.5% New Zealand Oil & Gas 57.5% AWE [Operator] 15% Pan Pacific Petroleum	
		Maari and Manaia [PML 38160]	5% Cue Energy** 69% OMV New Zealand [Operator] 16% Todd Maari 10% Horizon Oil International	
		Vulcan [PEP 55793]	30% New Zealand Oil & Gas 70% Woodside Energy [New Zealand] [Operator]	
	Canterbury	Clipper [PEP 52717]	50% New Zealand Oil & Gas [Operator] 50% Beach Energy	
	Great South	Toroa [PEP 55794]	30% New Zealand Oil & Gas 70% Woodside Energy [New Zealand 55794] [Operator]	
Indonesia	East Java	Sampang Production Sharing Contract	15% Cue Energy** 45% Santos Sampang [Operator] 40% Singapore Petroleum Company	
	Sumatra	Kisaran Production Sharing Contract	22.5% New Zealand Oil & Gas 55% Pacific Oil & Gas [Operator] 22.5% Bukit Energy	
		MNK Kisaran Production Sharing Contract	11.25% New Zealand Oil & Gas 55% Pacific Oil & Gas [Operator] 33.75% Bukit Energy	
		Bohorok Production Sharing Contract	45% New Zealand Oil & Gas 45% Bukit Energy [Operator] 10% Surya Buana Lestarijaya Bohorok	
		MNK Bohorok Joint Study Agreement	20.25% New Zealand Oil & Gas 55% Lion Energy [Operator] 20.25% Bukit Energy 4.5% Surya Buana Lestarijaya Bohorok	
		Palmerah Baru Production Sharing Contract	36% New Zealand Oil & Gas 54% Bukit Energy Palmerah Baru [Operator] 10% PT SNP Indonesia	
		MNK Palmerah Production Sharing Contract	15.84% New Zealand Oil & Gas 69.36% Bukit Energy Resources Palmerah Deep Pte [Operator] 8.8% PT SNP Indonesia – Bumi Perdana Energy 3% Bumi Perdana Energy 3% Glory Wealth Pacific	
		Mahato Production Sharing Contract	12.5% Cue Energy 62.5% Texcal Mahato EP [Operator] 25% Bukit Energy Central Sumatra [Mahato] Pte	
	Kutei	Mahakam Hilir Production Sharing Contract	100% Cue Energy SPC Mahakam Hilir Pte [Operator]**	
	West Australia		WA-359-P	100% Cue Energy [Operator]**
			WA-409-P	20% Cue Energy** 80% BP Developments Australia Pty Ltd [Operator]
		WA-389-P	40% Cue Energy** 60% BHP Billiton Petroleum [Australia] Pty [Operator]	

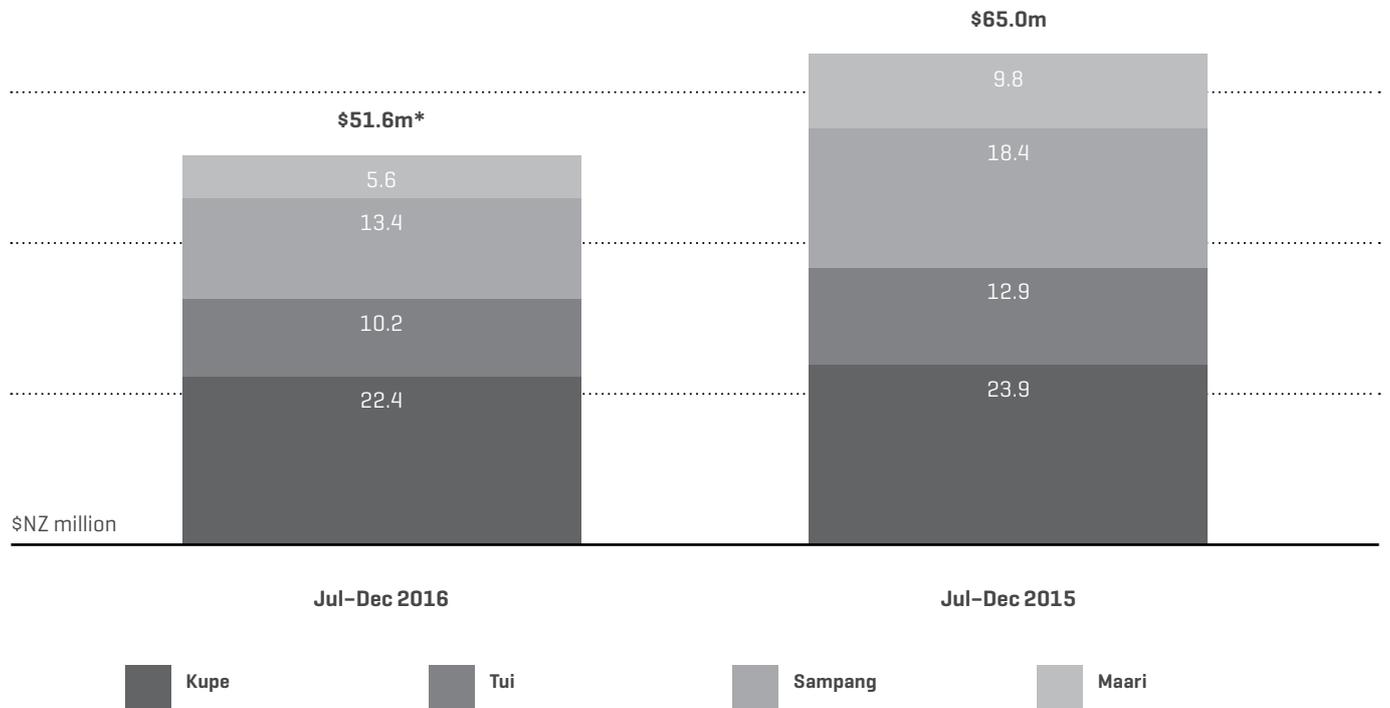
Producing asset

* Position at 31 December. Subsequent to quarter end, New Zealand Oil & Gas sold its interest, with an effective date of 1 January 2017.

** New Zealand Oil & Gas has a 50.01 per cent interest in Cue Energy. Cue's full interest is shown.

Producing Assets

Revenue



	Jul-Dec 2016	Jul-Dec 2015
Tui	10.2	12.9
Kupe	22.4	23.9
Maari & Sampang [Cue Energy]	19.0	28.1
Total	51.6	65.0

* Kupe revenue included in Discontinued Operations. See Note 8.

DIRECTORS

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Chairman

Dr Rosalind Archer

Roderick Ritchie

Duncan Saville

Mark Tume

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MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your registered details including transactions, please visit:

www.investorcentre.com/nz

General enquiries can be directed to:

enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.



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