NEW ZEALAND OIL & GAS

INTERIM REPORT 2018

CEO's Report

After six months dominated by takeover activity in the second half of 2017, the company has now emerged with a strong major shareholder and we have reconfigured our strategy.

The outcome of the takeover process resolved a dilemma about the best pathway forward for the company.

Since the downturn in oil prices that began in 2014 we have been exiting low priority exploration and reducing our costs. At the same time we were able to realise the future value of development in our major asset.

Eventually this resulted in a choice between continuing on the trajectory of turning assets into cash, or taking advantage of an opportune time in the industry's cycle to acquire growth assets – turning cash into assets.

We have missed out on a couple of opportunities in the last year when we made a bid that lost out to higher ones. I would rather miss out having made a bid at a realistic price than succeed in a bid at an overly optimistic one. But we expect the pace of activity to pick up in 2018 because, with the backing of our major shareholder's global connections, we are no longer limited to utilising the $83.6 million cash balance we had at the end of 2017.

We are looking to acquire assets that have a value of more than $100 million, and upside development potential.

Our preference is for gas, because we see gas having a strong future as it performs a crucial role over the next three or four decades in the transition to a lower carbon world.

We are looking at countries we feel confident about, and assets with undeveloped upside where we believe our involvement can add value.

In addition to acquiring production we want to re-shape our exploration portfolio.

We want near-term drilling opportunities to complement our world class deep water prospects Barque and Toroa off New Zealand's South Island, and Ironbark (held in our ASX-listed subsidiary Cue Energy) off Australia's Northwest shelf.

Completing the farmout process for these deep water prospects and moving towards drill or drop decisions is a priority.

While we review opportunities, the business is in a steady state.

The report you are reading announces a net loss after tax of $0.7 million for the six months, and a net loss attributable to shareholders of $2.5 million. This is down from a loss of $18.0 million in the corresponding period a year earlier.

The underlying performance is healthier. The reported profit figure does not include the performance of our 4% interest in Kupe for most of the period. We completed the acquisition in mid-December, but we recognised the asset's economic performance from 1 January 2017 to 8 December 2017 as an adjustment to the purchase price, in line with standard accounting practice.

If the performance of the Kupe asset had been included as revenue for the period instead, then the Group would have declared a net profit of $0.8 million for the six months.

This means we are covering our costs, but in future we expect to invest more.

One consequence of capital returns and takeover offers is that our share registry now includes a large number of holders who have very small parcels. Some shareholders have been in touch asking us to find a solution. The Board has resolved to tidy up the register by providing an economic way for holders with small parcels to sell their shares. We aren't yet ready to announce the details but it is likely to mean you will be given a choice of either increasing your holding above the minimum threshold, or having your shares sold on your behalf.

The company has been through enormous change in the last couple of years. The next phase will feature a change in strategy from cost-minimisation and value-hunting to transformational growth.

I look forward to bringing you updates on our progress.

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

Financial Summary

Condensed Interim Financial Statements
For the half year ended 31 December 2017

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 26 February 2018:

Samuel Kellner
Chairman

Rosalind Archer
Director

Condensed Statement of Cash Flows

For the half year ended 31 December 2017

	Notes	Unaudited Half Year 31 Dec 2017 $000	Unaudited Half Year 31 Dec 2016 $000	Audited Full Year 30 Jun 2017 $000
Cash flows from operating activities				
Receipts from customers		**12,870**	55,317	73,446
Production and marketing expenditure		**(6,758)**	(21,196)	(30,317)
Supplier and employee payments (inclusive of GST)		**(7,015)**	(8,663)	(15,831)
Interest received		**947**	241	2,650
Income taxes paid		**(1,250)**	(10,573)	(11,242)
Royalties paid		**(310)**	(1,988)	(1,979)
Other		**199**	110	400
Net cash (outflow)/inflow from operating activities		**(1,317)**	13,248	17,127
Cash flows from investing activities				
Exploration and evaluation expenditure		**(3,339)**	(4,001)	(17,302)
Oil and gas asset expenditure		**(1,936)**	(3,005)	(5,235)
Purchase of shares in subsidiary		**-**	(1,216)	(1,251)
Purchase of oil and gas interest	5	**(30,000)**	-	-
Proceeds from sale of oil and gas interests or subsidiaries		**-**	918	158,891
Purchase of property, plant, and equipment		**-**	(12)	(12)
Return of security deposit		**-**	-	870
Net cash (outflow)/inflow from investing activities		**(35, 275)**	(7,316)	135,961
Cash flows from financing activities				
Issue of shares		**53**	(2)	(10)
Buyback of NZOG shares		**-**	(9,433)	(9,447)
Capital return		**-**	-	(99,999)
Dividends paid		**(6,805)**	(13,512)	(13,512)
Other		**-**	(14)	-
Net cash outflow from financing activities		**(6,752)**	(22,961)	(122,968)
Net (decrease)/increase in cash and cash equivalents		**(43,344)**	(17,031)	30,120
Cash and cash equivalents at the beginning of period		**125,103**	96,811	96,811
Exchange rate effects on cash and cash equivalents		**1,812**	1,322	(1,828)
Cash and cash equivalents at end of the period		**83,571**	81,102	125,103

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

Condensed Statement of Comprehensive Income

For the half year ended 31 December 2017

	Notes	Unaudited Half Year 31 Dec 2017 $000	Unaudited Half Year 31 Dec 2016* $000	Audited Full Year 30 Jun 2017 $000
Revenue	4	**15,357**	19,073	37,058
Operating costs	6	**(6,961)**	(8,040)	(15,882)
Exploration and evaluation expenditure		**(3,494)**	(5,331)	(12,273)
Other income		**403**	104	807
Other expenses		**(5,215)**	(8,135)	(14,622)
Results from operating activities excluding amortisation, impairment and net finance costs		**90**	(2,329)	(4,912)
Amortisation of production assets		**(3,474)**	(4,644)	(8,271)
Production asset impairment		**-**	(7,694)	(7,694)
Evaluation and exploration asset impairment		**-**	-	(7,567)
Net finance income		**2,059**	665	1,371
Loss before income tax and royalties		**(1,325)**	(14,002)	(27,073)
Income tax credit/(expense)		**854**	(1,875)	(5,095)
Royalties expense		**(251)**	(297)	(575)
Loss after tax from continuing operations		**(722)**	(16,174)	(32,743)
Net (loss)/surplus from discontinued operations after tax		**-**	(9,203)	85,301
(Loss)/profit for the period		**(722)**	(25,377)	52,558
(Loss)/profit for the period attributable to:				
(Loss)/profit attributable to shareholders		**(2,508)**	(17,977)	62,695
Profit/(loss) attributable to non-controlling interest		**1,786**	(7,400)	(10,137)
(Loss)/profit for the period		**(722)**	(25,377)	52,558
Other comprehensive profit/(loss):				
Items that may be classified to profit or loss				
Foreign currency translation differences		**1,291**	520	(1,244)
Total comprehensive income/(loss) for the period		**569**	(24,857)	51,314
Total comprehensive income/(loss) for the period is attributable to:				
Equity holders of the Group		**(1,217)**	(17,457)	61,193
Non-controlling interest		**1,786**	(7,400)	(9,879)
Total comprehensive income/(loss) for the year		**569**	(24,857)	51,314
(Loss)/income per share				
Basic and diluted (cents per share)		**(1.5)**	(5.3)	20.0

*comparative numbers have been restated due to discontinued operations

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

Condensed Statement of Financial Position

As at 31 December 2017

	Notes	Unaudited Half Year 31 Dec 2017 $000	Audited Full Year 30 Jun 2017 $000
ASSETS			
Current assets			
Cash and cash equivalents		**83,571**	125,103
Receivables and prepayments		**9,152**	6,523
Inventories		**2,017**	1,450
Total current assets		**94,740**	133,076
Non-current assets			
Evaluation and exploration assets		**6,900**	6,692
Oil and gas assets	8	**69,780**	31,957
Property, plant and equipment		**170**	185
Other intangible assets		**461**	650
Other financial assets		**16**	16
Total non-current assets		**77,327**	39,500
Total assets		**172,067**	172,576
LIABILITIES			
Current liabilities			
Payables		**5,129**	5,784
Current tax liabilities		**1,250**	2,926
Total current liabilities		**6,379**	8,710
Non-current liabilities			
Borrowings		**1,187**	1,146
Rehabilitation provision	9	**18,313**	10,304
Deferred tax liability		**3,313**	3,360
Total non-current liabilities		**22,813**	14,810
Total liabilities		**29,192**	23,520
Net assets		**142,875**	149,056
EQUITY			
Share capital		**208,684**	208,630
Reserves		**7,489**	6,198
Retained earnings		**(77,870)**	(68,558)
Attributable to shareholders of the Group		**138,303**	146,270
Non-controlling interest in subsidiaries		**4,572**	2,786
Total equity		**142,875**	149,056
Net asset backing per share (cents per share)		**85**	89
Net tangible asset backing per share (cents per share)		**81**	84

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

Condensed Statement of Changes in Equity

For the half year ended 31 December 2017

	Issued capital $000	Reserves $000	Retained earnings $000	Total $000	Non-controlling interest $000	Total equity $000
Balance as at 1 July 2016	**318,089**	**1,051**	**(111,382)**	**207,758**	**13,442**	**221,200**
Profit/(loss) for the period	-	-	62,695	62,695	(10,137)	52,558
Foreign currency translation differences	-	(1,244)	-	(1,244)	-	(1,244)
Shares issued	1	-	-	1	-	1
Buy back of issued shares	(109,433)	-	-	(109,433)	-	(109,433)
Partly paid shares issued	(27)	-	-	(27)	-	(27)
Share based payment	-	32	-	32	-	32
Dividends declared	-	-	(13,512)	(13,512)	-	(13,512)
Change in share of non-controlling interest (NCI)	-	-	-	-	(1,168)	(1,168)
Derecognition of FCTR on disposal of Tui	-	6,359	(6,359)	-	-	-
NCI adjustment on disposal of Pine Mills	-	-	-	-	649	649
Audited balance as at 30 June 2017	**208,630**	**6,198**	**(68,558)**	**146,270**	**2,786**	**149,056**
(Loss)/profit for the period	-	-	(2,508)	(2,508)	1,786	(722)
Foreign currency translation differences	-	1,291	-	1,291	-	1,291
Shares issued	57	-	-	57	-	57
Party paid shares issued	(3)	-	-	(3)	-	(3)
Dividends declared	-	-	(6,804)	(6,804)	-	(6,804)
Unaudited balance as at 31 December 2017	**208,684**	**7,489**	**(77,870)**	**138,303**	**4,572**	**142,875**

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

1. BASIS OF ACCOUNTING

Reporting entity

New Zealand Oil & Gas Limited (the Group) is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand Stock Exchange (NZX). The Group is an FMC reporting entity for the purposes of the Financial Reporting Act 2013 and Financial Markets Conduct Act 2013.

The condensed interim financial statements ("financial statements") presented as at and for the half year ended 31 December 2017 are for New Zealand Oil & Gas Limited, its subsidiaries and the interests 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 2017.

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 2017 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.

The accounting policies applied are consistent with those of the annual financial statements for the year ended 30 June 2017.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

- Recoverability of evaluation and exploration assets and oil and gas assets. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at least annually and considers objective evidence for impairment on each investment taking into account observable data on the investment, the fair value, the status or context of capital markets, its own view of investment value and its long term intentions (refer to note 8).
- Provision for rehabilitation obligations includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 9).
- Recoverability of deferred tax asset. Assessment of the ability of entities in the Group to generate future taxable income .
- Assessment of accounting treatment of the Kupe acquisition, its acquisition date and fair value (refer to note 5).

4. SEGMENT INFORMATION

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

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

Kupe oil and gas field: development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining permit area of PML 38146 located in the offshore Taranaki basin, New Zealand. The Group's 15% interest was sold to Genesis Energy effective 1 January 2017. Subsequently the Group purchased a 4% interest from Mitsui with an acquisition date of 8 December 2017 (refer to note 5). The segment report discloses both holdings within Kupe oil and gas field however the 15% is reported as discontinued operations in comparatives.

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

Cue Energy Resources Limited (Cue): the Group acquired a controlling interest in Cue during the 2015 financial year. Management have treated this as a separate operating segment.

Tui area oil field: development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand. This asset was sold during the 2017 financial year and is reported as discontinued operations in comparatives.

4. SEGMENT INFORMATION (CONTINUED)

Unaudited Half year to 31 December 2017	Kupe oil & gas $000	Oil & gas exploration $000	Other & unallocated $000	Cue Energy Resources $000	Total $000
Sales to external customers - NZ	830	-	-	8,682	9,512
Sales to external customers - other countries	595	-	-	5,250	5,845
Total sales revenue	1,425	-	-	13,932	15,357
Other income	1	-	260	142	403
Total revenue and other income	1,426	-	260	14,074	15,760
Segment result	844	(2,808)	(3,402)	1,982	(3,384)
Other net finance costs					2,059
Loss before income tax and royalties					(1,325)
Income tax and royalties expense					603
Loss for the period					(722)
Segment assets	37,738	6,900	-	32,042	76,680
Unallocated assets					95,387
Total assets					172,067
Included in segment results:					
Depreciation and amortisation expense	224	-	210	3,250	3,684

Audited Full year to 30 June 2017	Tui oil $000	Kupe oil & gas $000	Oil & gas exploration $000	Other & unallocated $000	Cue Energy Resources $000	Total $000
Sales to external customers - NZ	-	-	-	-	22,861	22,861
Sales to external customers - other countries	-	-	-	-	14,197	14,197
Total sales revenue	-	-	-	-	37,058	37,058
Other income	-	-	-	736	71	807
Total revenue and other income	-	-	-	736	37,129	37,865
Impairment of oil and gas assets	-	-	(7,567)	-	(7,694)	(15,261)
Segment result	-	-	(11,117)	(8,454)	(8,873)	(28,444)
Other net finance costs						1,371
Loss before income tax and royalties						(27,073)
Income tax and royalties expense						(5,670)
Loss for the year from continuing operations						(32,743)
Profit/(loss) after tax from discontinuing operations	(14,742)	102,390	-	-	(2,347)	85,301
Profit for the year						52,558
Segment assets	-	-	6,692	-	31,957	38,649
Unallocated assets						133,927
Total assets						172,576
Included in profit for the year:						
Depreciation and amortisation expense from continuing operations	-	-	-	433	8,305	8,738
Depreciation and amortisation expense from discontinuing operations	8,105	6,961	-	-	-	15,066

4. SEGMENT INFORMATION (CONTINUED)

Unaudited Half year to 31 December 2016*	**Tui oil $000**	**Kupe oil & gas $000**	**Oil & gas exploration $000**	**Other & unallocated $000**	**Cue Energy Resources $000**	**Total $000**
Sales to external customers - NZ	-	-	-	-	**12,154**	**12,154**
Sales to external customers - other countries	-	-	-	-	**6,919**	**6,919**
Total sales revenue	-	-	-	-	**19,073**	**19,073**
Other income	-	-	-	**104**	-	**104**
Total revenue and other income	-	-	-	**104**	**19,073**	**19,177**
Impairment of oil and gas assets	-	-	-	-	**(7,694)**	**(7,694)**
Segment result			**(1,442)**	**(4,274)**	**(8,951)**	**(14,667)**
Other net finance costs						**665**
Loss before income tax and royalties						**(14,002)**
Income tax and royalties expense						**(2,172)**
Loss for the period from continuing operations						**(16,174)**
(Loss)/profit after tax from discontinuing operations	(14,463)	7,557	-	-	(2,297)	**(9,203)**
Loss for the period						**(25,377)**
Segment assets	18,068	-	14,901	-	36,197	**69,166**
Assets held for sale	-	140,269	-	-	-	**140,269**
Unallocated assets						**94,626**
Total assets						**304,061**
Included in loss for the period:						
Depreciation and amortisation expense from continuing operations	-	-	-	224	4,656	**4,880**
Depreciation and amortisation expense from discontinuing operations	8,105	6,961	-	-	-	**15,066**

* comparative numbers have been restated due to discontinued operations.

5. BUSINESS ACQUISITIONS

In May 2017 the Group agreed to purchase Mitsui E&P Australia's (Mitsui) 4 per cent interest in the Kupe gas and light oil field (Kupe) for $35 million with an effective economic date of 1 January 2017. The transaction required significant conditions to be met, the last of which occurred on 8 December 2017 when the Group received approval from the Overseas Investment Office (OIO).

On 13 December 2017 consideration of $30 million was paid to Mitsui which included adjustments for movement in net working capital and net revenues between effective economic date (1 January 2017) and date of acquisition (8 December 2017).

The acquisition of a business combination is accounted for using the acquisition method as defined in IFRS3. At the acquisition date, both the consideration transferred and the identifiable assets acquired and liabilities assumed, are measured and recognised at fair value. If the initial accounting for a business acquisition is incomplete at reporting date, the Group reports provisional amounts but is able, under certain conditions, to make adjustments within one year from acquisition date.

The acquisition date is considered the date on which the Group obtained control of the business. One of the significant conditions which allowed completion to occur was OIO approval which was granted on 8 December 2017. At this date control effectively passed to the Group giving it the power to direct the relevant activities so as to affect its returns from Kupe.

Acquisition related costs amounting to $0.2 million are expensed in the profit or loss within 'other operating expenses'.

	$000
Net cash outflow on acquisition	
Purchase price at 1 January 2017	35,000
Net revenue received by Mitsui between 1 January 2017 and 8 December 2017	(4,619)
Working capital adjustment	(381)
Total consideration transferred	**30,000**
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	346
Receivables	28
Inventories	158
Oil and gas assets (i)	30,381
Payables and accruals	(913)
Net assets acquired	30,000

(i) Fair value of oil and gas asset

Market value was set in May 2017, when the sale was agreed between two unrelated highly knowledgeable investors. The purchase price of $35 million related to the asset value at 1 January 2017, the effective economic date. By adjusting this for cash flows to 8 December 2017, and with no other market factors changing materially, a reasonable estimate of fair value can be made at 8 December 2017.

Pro-forma accounts

The table below demonstrates the impact of the Kupe acquisition on the current period (from 8 December 2017) and the pro-forma impact on the financial statements had the acquisition occurred on 1 January 2017 or on 1 July 2017.

Column 1. The current period includes net revenue of $0.8 million from 8 December 2017 (acquisition date) to 31 December 2017.

Column 2. Pro-forma net revenue of $2.0 million would have been generated in the period from 1 January 2017 to 30 June 2017 had the acquisition date been 1 January 2017 (the effective economic date).

Column 3. Pro-forma net revenue of $0.5 million would have been generated in the period from 1 July 2017 to 8 December 2017 had the acquisition occurred at the beginning of this reporting period.

	Column 1	Column 2	Column 3
	Impact of acquisition on current period result from 8 December 2017	Pro-forma 6 month impact to June 2017 had the aquisition occured on 1 January 2017	Pro-forma 5 month impact to 8 December 2017 had the acquisition occured on 1 July 2017
Revenue	1,427	7,077	5,201
Operating costs	(356)	(2,313)	(2,287)
Depreciation and amortisation	(224)	(1,615)	(1,346)
Finance expense	(3)	-	-
Acquisition related costs	(27)	-	(246)
Tax impact	-	(1,167)	(778)
Profit after income tax for the period	**818**	**1,982**	**544**
Contribution to earnings per share (cents per share)	**0.5**	**1.2**	**0.3**

5. BUSINESS ACQUISITIONS (CONTINUED)

The 'pro-forma' accounts show how revenue, and profit before income tax would have been impacted had the businesses been acquired at the beginning of the effective economic date and at the beginning of the current financial year.

The following assumptions have been made:

- Calculated depreciation and amortisation is based on the fair values arising in the initial accounting for the business acquisition and published opening reserves
- Operating costs may include some capital costs expected to be immaterial
- No tax impact after acquisition date
- Includes acquisition-related costs of $0.2 million expensed in profit or loss.

6. OPERATING COSTS

	Unaudited Half Year 31 Dec 2017 $000	Unaudited Half Year 31 Dec 2016* $000	Audited Full Year 30 Jun 2017 $000
Production and sales marketing costs	**(7,024)**	(7,612)	(14,571)
Carbon emission expenditure	**(239)**	(2)	(139)
Insurance expenditure	**(11)**	(28)	(45)
Movement in inventory	**313**	(398)	(1,127)
Total operating costs	**(6,961)**	(8,040)	(15,882)

7. OIL AND GAS INTERESTS

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

Share of oil and gas interests' assets and liabilities

	Unaudited Half Year 31 Dec 2017 $000	Unaudited Half Year 31 Dec 2016* $000	Audited Full Year 30 Jun 2017 $000
Current assets			
Cash and cash equivalents	**525**	6,462	65
Trade receivables	**579**	6,044	806
Inventory	**1,229**	2,052	780
Non-current assets			
Petroleum interests (i)	**76,964**	457,488	53,911
Total assets	**79,297**	472,046	55,561
Current liabilities			
Short-term liabilities	**2,874**	7,924	2,437
Total liabilities	**2,874**	7,924	2,437
Net assets	**76,423**	464,122	53,123
Share of oil and gas interests' Loss			
Revenue (ii)	**-**	-	-
Expenses	**(6,622)**	(7,601)	(14,559)
Loss before income tax	**(6,622)**	(7,601)	(14,559)

(i) Petroleum interests are prior to amortisation of production assets and borrowings.

(ii) Revenues above do not include petroleum sales in relation to the Maari, Kupe or Tui interests, 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.

During the period the Group sold its interests in MNK Kisaran PSC and MNK Palmerah PSC.

* comparative numbers have been restated due to discontinued operations.

8. OIL AND GAS ASSETS

Development

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

Production Assets

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

Subsequent costs

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

Impairment

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

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

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

	Unaudited Half Year 31 Dec 2017 $000	Audited Full Year 30 Jun 2017 $000
Opening balance	**31,957**	207,937
Acquisition (i)	**30,381**	-
Expenditure capitalised	**2,067**	5,012
Impairment (ii)	**-**	(7,694)
Amortisation for the period	**(3,522)**	(24,880)
Revaluation of USD production assets	**1,468**	3,066
Rehabilitation provision	**7,429**	(3,808)
Disposals (iii)	**-**	(147,676)
Closing balance at end of period	**69,780**	31,957

(i) During the period the Group acquired 4% interest in the Kupe permit (see note 5).

(ii) At 31 December 2017 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, no assets were found to be impaired (30 June 2017: $7.7 million).

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

(iii) During the year ended 30 June 2017 the Group's initial interest in the Kupe (15% interest), Tui and Pine Mills assets were sold.

9. REHABILITATION PROVISION

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current period, the discount rate used to determine the provision was 2.49% using the United States Treasury bond rates. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

	Unaudited Half Year 31 Dec 2017 $000	Audited Full Year 30 Jun 2017 $000
Carrying amount at start of period	**10,304**	79,006
Addition in provision recognised	**7,429**	(2,302)
Foreign currency revaluation of provisions	**459**	-
Unwinding of discount	**121**	-
Reduction in provision due to disposal of Tui and Kupe interests	**-**	(66,400)
Carrying amount at end of period	**18,313**	10,304

10. RELATED PARTY TRANSACTIONS

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 period.

A number of directors are also directors of other companies. Any transactions undertaken with these entities have been entered into as part of the ordinary business of the Group.

11. COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

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.

Cue's exploration portfolio includes a commitment of AU$31.3 million which relates to Australian permit WA359P which contains the Ironbark prospect. This permit is currently being marketed and a farm out process is ongoing.

12. EVENTS OCCURRING AFTER BALANCE DATE

On 11 January 2018, O.G. Oil & Gas (Singapore) Pte. Ltd. (OGOG) announced that all conditions relating to its partial takeover offer for the Group had been either satisfied or waived. On 19 January 2018 OGOG disclosed that its shareholding of the Group stands at 69.87%.

With the OGOG shareholding reaching 69.87%, the New Zealand shareholder continuity test threshold (as set out by the Inland Revenue Department) has been breached resulting in the forfeiture of the Group's Imputation Credit balance and the loss of the ability to carry forward unutilised tax losses after 19 January 2018.

Independent Review Report

To the shareholders of New Zealand Oil & Gas Limited

Report on the interim condensed financial statements

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed financial statements on pages 5 to 15 do not:

i. present fairly in all material respects the Group's financial position as at 31 December 2017 and its financial performance and cash flows for the 6 month period ended on that date; and

ii. comply with NZ IAS 34 Interim Financial Reporting.

We have completed a review of the accompanying interim condensed financial statements which comprise:

— the condensed statement of financial position as at 31 December 2017;

— the condensed statements of comprehensive income, changes in equity and cash flows for the 6 month period then ended; and

— notes, including a summary of significant accounting policies and other explanatory information.

Basis for conclusion

A review of interim condensed financial statements in accordance with NZ SRE 2410 *Review of Financial Statements Performed by the Independent Auditor of the Entity* ("NZ SRE 2410") is a limited assurance engagement. The auditor performs procedures, consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

As the auditor of New Zealand Oil & Gas Limited, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

Our firm has also provided other services to the group in relation to taxation services. Subject to certain restrictions, partners and employees of our firm may also deal with the group on normal terms within the ordinary course of trading activities of the business of the group. These matters have not impaired our independence as reviewer of the group. The firm has no other relationship with, or interest in, the group.

Use of this Independent Review Report

This report is made solely to the shareholders as a body. Our review work has been undertaken so that we might state to the 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 shareholders as a body for our review work, this report, or any of the opinions we have formed.

Responsibilities of the Directors for the interim condensed financial statements

The Directors, on behalf of the group, are responsible for:

— the preparation and fair presentation of the interim condensed financial statements in accordance with NZ IAS 34 Interim Financial Reporting;

— implementing necessary internal control to enable the preparation of the interim condensed financial statements that are fairly presented and free from material misstatement, whether due to fraud or error; and

— assessing the ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the review of the interim condensed financial statements

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. NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with NZ IAS 34 Interim Financial Reporting.

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 these interim condensed financial statements.

This description forms part of our Independent Review Report.

KPMG
Wellington

26 February 2018

Permits

New Zealand Oil & Gas held the following interests
at 31 December 2017

	Basin	Permit/PSC	Interests
New Zealand	Taranaki	Kupe (PML 38146)	4% New Zealand Oil & Gas 50% Beach Energy (Operator) 46% Genesis Energy
		Maari and Manaia (PML 38160)	5% Cue Energy** 69% OMV New Zealand (Operator) 16% Todd Maari 10% Horizon Oil International
	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 Limited) (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
		Bohorok Production Sharing Contract	45% New Zealand Oil & Gas 50% Bukit Energy (Operator) 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
		Mahato Production Sharing Contract	12.5% Cue Energy** 51% Texcal Mahato EP (Operator) 20% Bow Energy International Holdings 16.5% Central Sumatra Energy
	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	100% Cue Energy**

Producing asset

* After period end New Zealand Oil & Gas agreed to acquire the operator's interest in PEP 55794 and become operator, subject to regulatory approval.

** New Zealand Oil & Gas has a 50.04 per cent interest in Cue Energy. Cue's full interest is shown.

DIRECTORS

Samuel Kellner
Chairman

Dr Rosalind Archer

Rebecca DeLaet

Andrew Jefferies

Alastair McGregor

Rod Ritchie

REGISTERED AND HEAD OFFICE

New Zealand Oil & Gas Ltd

Level 1, 36 Tennyson Street
Wellington 6011, New Zealand

Telephone	+64 4 495 2424
Email	enquiries@nzog.com

www.nzog.com

AUDITORS

KPMG

KPMG Centre, 10 Customhouse Quay
PO Box 996
Wellington 6011, New Zealand

SHARE REGISTRAR

New Zealand

Computershare Investor Services Limited
Level 2, 159 Hurstmere Road
Takapuna
Private Bag 92119
Auckland 1142

Telephone	+64 9 488 8777
Freephone	0800 467 335 (within NZ)
Facsimile	+64 9 488 8787
Email	enquiry@computershare.co.nz

New Zealand Oil & Gas Ltd
Level 1, 36 Tennyson Street
Wellington 6011, New Zealand
+64 4 495 2424

www.nzog.com