NEW ZEALAND OIL & GAS

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2018

Consolidated Statement of Cash Flows
For the year ended 30 June 2018

$000	Notes	2018	2017
Cash flows from operating activities			
Receipts from customers		**36,519**	73,446
Production and marketing expenditure		**(15,926)**	(30,317)
Supplier and employee payments (inclusive of GST)		**(8,126)**	(15,831)
Interest received		**1,713**	2,650
Income taxes paid		**(3,214)**	(11,242)
Royalties paid		**(603)**	(1,979)
Other		**200**	400
Net cash inflow from operating activities		**10,563**	17,127
Cash flows from investing activities			
Purchase of oil and gas interest net of cash acquired	12	**(29,654)**	-
Exploration and evaluation expenditure		**(5,420)**	(17,302)
Oil and gas asset expenditure		**(3,422)**	(5,235)
Purchase of shares in subsidiary		**-**	(1,251)
Proceeds from sale of oil and gas interests or subsidiaries		**-**	158,891
Purchase of property, plant and equipment		**(306)**	(12)
Return of security deposit		**-**	870
Net cash (outflow)/inflow from investing activities		**(38,802)**	135,961
Cash flows from financing activities			
Issue of shares		**3,291**	(10)
Buyback of NZOG shares		**-**	(9,447)
Capital return		**-**	(99,999)
Forfeited shares		**(4)**	-
Dividends paid		**(6,805)**	(13,512)
Net cash outflow from financing activities		**(3,518)**	(122,968)
Net (decrease)/increase in cash and cash equivalents		**(31,757)**	30,120
Cash and cash equivalents at the beginning of period		**125,103**	96,811
Exchange rate effects on cash and cash equivalents		**4,664**	(1,828)
Cash and cash equivalents at end of the year		**98,010**	125,103

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

$000	2018	2017
Profit for the year	**4,830**	52,558
Depreciation and amortisation	**8,724**	7,804
Deferred tax	**(2,767)**	1,633
Exploration expenditure included in investing activities	**4,650**	12,273
Asset Impairment	**-**	15,261
Net foreign exchange differences	**(4,062)**	(1,371)
Unwind of discount on provision	**203**	-
Net surplus/(loss) from discontinued operations after tax	**-**	(85,301)
Cash from discontinued operations relating to operating activities	**-**	20,482
Stock movement	**11**	(680)
Other	**(302)**	(301)
Change in operating assets and liabilities		
Movement in trade debtors	**(4,705)**	6,633
Movement in trade creditors	**1,616**	(11,615)
Movement in tax payable	**2,365**	(249)
Net cash inflow from operating activities	**10,563**	17,127

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

Consolidated Statement of Comprehensive Income
For the year ended 30 June 2018

$000	Notes	2018	2017
Revenue	5	**35,811**	37,058
Operating costs	6	**(12,625)**	(15,882)
Exploration and evaluation expenditure		**(4,650)**	(12,273)
Other income	5	**542**	807
Other expenses	7	**(11,376)**	(14,622)
Results from operating activities excluding amortisation, impairment and net finance costs		**7,702**	(4,912)
Amortisation of production assets		**(8,287)**	(8,271)
Production asset impairment		**-**	(7,694)
Evaluation and exploration asset impairment		**-**	(7,567)
Net finance income	8	**5,763**	1,371
Profit/(loss) before income tax and royalties		**5,178**	(27,073)
Income tax credit/(expense)	9	**1,197**	(5,095)
Royalties expense	10	**(1,545)**	(575)
Profit/(loss) for the year from continuing operations		**4,830**	(32,743)
Net surplus from discontinued operations after tax	11	**-**	85,301
Profit for the year		**4,830**	52,558
Profit for the year attributable to:			
Profit attributable to shareholders		**762**	62,695
Profit/(loss) attributable to non-controlling interest		**4,068**	(10,137)
Profit for the year		**4,830**	52,558
Other comprehensive Income:			
Items that may be classified to profit or loss			
Foreign currency translation reserve (FCTR) differences		**1,179**	(1,244)
Total other comprehensive income for the year		**6,009**	51,314
Total comprehensive income for the year is attributable to:			
Equity holders of the Group		**2,125**	61,193
Non-controlling interest		**3,884**	(9,879)
Total comprehensive income for the year		**6,009**	51,314
Income per share			
Basic and diluted (dollars per share)	24	**$0.005**	**$0.200**

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

Consolidated Statement of Financial Position
As at 30 June 2018

$000	Notes	2018	2017
Assets			
Current assets			
Cash and cash equivalents	13	**98,010**	125,103
Receivables and prepayments	14	**11,772**	6,523
Inventories		**2,253**	1,450
Total current assets		**112,035**	133,076
Non-current assets			
Evaluation and exploration assets	17	**7,243**	6,692
Oil and gas assets	12, 18	**64,848**	31,957
Property, plant and equipment		**217**	185
Other intangible assets		**487**	650
Other financial assets	19	**16**	16
Total non-current assets		**72,811**	39,500
Total assets		**184,846**	172,576
Liabilities			
Current liabilities			
Payables	20	**8,546**	6,930
Current tax liabilities		**5,291**	2,926
Total current liabilities		**13,837**	9,856
Non-current liabilities			
Rehabilitation provision	21	**18,642**	10,304
Deferred tax liability	9	**797**	3,360
Total non-current liabilities		**19,439**	13,664
Total liabilities		**33,276**	23,520
Net assets		**151,570**	149,056
Equity			
Share capital	22	**211,917**	208,630
Reserves	23	**7,561**	6,198
Retained earnings		**(74,578)**	(68,558)
Attributable to shareholders of the Group		**144,900**	146,270
Non-controlling interest in subsidiaries		**6,670**	2,786
Total equity		**151,570**	149,056
Net asset backing per share (cents per share)		**90**	89
Net tangible asset backing per share (cents per share)		**86**	84

Authorised on behalf of the New Zealand Oil & Gas Limited Board of Directors on 27 August 2018:

Samuel Kellner
Chairman

Rosalind Archer
Director

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

Consolidated Statement of Changes in Equity
For the year ended 30 June 2018

$000	Issued capital	Reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance as at 1 July 2016	**318,089**	**1,051**	**(111,382)**	**207,758**	**13,442**	**221,200**
Profit/(loss) for the year	-	-	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)
Party 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	-	-	-	-	(1,168)	(1,168)
Derecognition of FCTR on disposal of Tui	-	6,359	(6,359)	-	-	-
NCI adjustment on disposal of Pine Mills	-	-	-	-	649	649
Balance as at 30 June 2017	**208,630**	**6,198**	**(68,558)**	**146,270**	**2,786**	**149,056**
Profit for the year	-	-	762	762	4,068	4,830
Foreign currency translation differences	-	1,338	-	1,338	(184)	1,154
Shares issued	3,313	-	-	3,313	-	3,313
Party paid shares issued	(26)	-	-	(26)	-	(26)
Share based compensation expense	-	47	-	47	-	47
Exercised and expired ESOP awards	-	(47)	47	-	-	-
Dividends declared	-	-	(6,804)	(6,804)	-	(6,804)
FCTR on disposals	-	25	(25)	-	-	-
Balance as at 30 June 2018	**211,917**	**7,561**	**(74,578)**	**144,900**	**6,670**	**151,570**

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 financial statements presented are for New Zealand Oil & Gas Limited, its subsidiaries and interests in associates and jointly controlled operations (together referred to as the "Group").

The ultimate parent company is O.G. Oil & Gas (Singapore) Pte. Ltd. (OGOG), a company incorporated in Singapore and forms part of the Ofer Global Group.

Basis of preparation

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

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

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

Basis of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that control ceases. Consistent accounting policies are employed in the preparation and presentation of the Group financial statements. Intra-group balances, transactions, unrealised income or expenses arising from intra-group transactions and dividends are eliminated in preparing the Group financial statements. A list of subsidiaries and associates is shown in notes 15 and 16.

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

2 Critical accounting estimates and judgements

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

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

* recoverability of evaluation and exploration assets and oil and gas assets. Assessment includes future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. Management performs an assessment of the carrying value of investments at each reporting date 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 17, 18 and 25(a)(ii)).

* provision for rehabilitation obligations includes estimates of future costs, timing of required restoration and an estimated discount rate (refer to note 21).

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

3 Adoption status of relevant new financial reporting standards and interpretations

The following new standards, amendments to standards and interpretations are issued but not yet effective and have not been applied in preparation of these consolidated financial statements.

NZ IFRS 9 Financial Instruments, published in July 2014, replaces the existing guidance in NZ IAS 39 Financial Instruments: Recognition and Measurement. NZ IFRS 9 includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from NZ IAS 39. NZ IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. NZ IFRS 9 is not expected to have a material impact on the Group’s financial statements.

NZ IFRS 15 Revenue from Contracts with Customers, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including NZ IAS 18 Revenue, NZ IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. NZ IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Management have commenced a project to review the impact of NZ IFRS 15 and are currently in the process of quantifying any potential impact of NZ IFRS15.

NZ IFRS 16 Leases, removes the classification of leases as either operating leases or finance leases – for the lessee – effectively treating all leases as finance leases. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating. The standard is effective for annual reporting periods beginning on or after 1 January 2019. The likely impact of this standard has not yet been assessed.

4 Segment information

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

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

Kupe oil and gas field (Kupe): 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 E&P Australia Pty Limited with an acquisition date of 8 December 2017 (refer to note 12). The segment report discloses both holdings within the Kupe segment however the 15% is reported as discontinued operations in prior year 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 prior year comparatives.

4 Segment information (continued)

2018 $000	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - NZ	**6,052**	**-**	**-**	**-**	**6,052**
Sales to external customers - other countries	**3,114**	**-**	**-**	**26,645**	**29,759**
Total sales revenue	**9,166**	**-**	**-**	**26,645**	**35,811**
Other income	**(22)**	**-**	**282**	**282**	**542**
Total revenue and other income	**9,144**	**-**	**282**	**26,927**	**36,353**
Segment result	**5,589**	**(1,649)**	**(9,755)**	**5,229**	**(586)**
Other net finance income					**5,764**
Profit before income tax and royalties					**5,178**
Income tax and royalties expense/(credit)					**(348)**
Profit for the year					**4,830**
Segment assets	**35,432**	**7,243**	**-**	**29,416**	**72,091**
Unallocated assets					**112,755**
Total assets					**184,846**
Included in segment results:					
Depreciation and amortisation expense	**2,144**	**-**	**422**	**6,158**	**8,724**

2017 $000	**Tui oil**	**Kupe oil & gas**	**Oil & gas exploration**	**Other & unallocated**	**Cue Energy Resources Ltd**	**Total**
Sales to external customers - NZ	-	-	-	-	22,861	22,861
Sales to external customers - other countries	-	-	-	-	14,196	14,196
Total sales revenue	-	-	-	-	37,057	37,057
Other income	-	-	-	736		736
Total revenue and other income	-	-	-	736	37,057	37,793
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						(5,669)
Loss for the year from continuing						(32,742)
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 segment results:						
Depreciation and amortisation expense	-	-	-	433	8,305	8,738
Depreciation and amortisation expense from discontinuing operations	8,105	6,961	-	-	-	15,066

5 Revenue and other income

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

$000	2018	2017
Revenue		
Petroleum sales	**35,811**	37,058
Total revenue	**35,811**	37,058
Other income		
Insurance proceeds	**-**	541
Other income	**542**	266
Total other income	**542**	807
Total income	**36,353**	37,865

6 Operating Costs

$000	2018	2017
Production and sales marketing costs	**(11,949)**	(14,571)
Carbon emission expenditure	**(391)**	(139)
Insurance expenditure	**(274)**	(45)
Movement in inventory	**(11)**	(1,127)
Total operating costs	**(12,625)**	(15,882)

7 Other expenses

$000	2018	2017
Classification of other expenses by nature		
Audit fees paid to the Group auditor - KPMG	**105**	120
Audit fees paid to other auditors - BDO	**113**	193
Directors' fees	**476**	609
Legal fees	**821**	1,032
Consultants' fees	**999**	981
Employee expenses (i)	**5,142**	8,034
Depreciation	**71**	69
Amortisation of intangible assets	**366**	398
Share based payment expense	**47**	32
IT and software expenses	**628**	800
Pre-permit expenditure	**127**	445
Registry and stock exchange fees	**261**	241
Other	**2,220**	1,668
Total other expenses	**11,376**	14,622

(i) Employee expenses are net of $0.2 million (2017: $0.2 million) recharged to exploration and evaluation expense and recharged to operated joint ventures.

A number of one-off expenses were incurred during the year relating to due diligence on potential acquisitions.

7 Other expenses (continued)

$000	2018	2017
Fees paid to the Group auditor		
Audit and review of financial statements	**105**	120
Tax compliance services	**20**	49
Tax advisory services	**256**	227
Total fees paid to Group auditor	**381**	396
Fees paid to the other auditors (for the year) - BDO		
Audit and review of subsidiary financial statements	**113**	193
Tax compliance services	**22**	53
Tax advisory services	**-**	3
Total fees paid to other auditors	**135**	249

8 Net finance income and costs

$000	2018	2017
Bank fees	**(4)**	(12)
Unwinding of discount on provisions	**(203)**	(2)
Total finance costs	**(207)**	(14)
Interest income	**1,908**	2,334
Exchange gains on foreign currency balances	**4,062**	(949)
Total finance income	**5,970**	1,385
Net finance income	**5,763**	1,371

9 Taxation

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

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

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

$000	**2018**	2017
Income tax expense		
Current tax	**1,570**	6,728
Deferred tax	**(2,767)**	(1,633)
(a) Total income tax (credit)/expense	**(1,197)**	5,095
Income tax expense calculation		
Profit/(loss) before income tax expense and royalties from continuing operations	**5,178**	(27,073)
Less: royalties expense	**(1,545)**	(574)
Profit/(loss) before income tax expense	**3,632**	**(27,647)**
Tax at the New Zealand tax rate of 28%	**1,017**	(7,741)
Tax effect of amounts which are not deductible/(taxable):		
Difference in overseas tax rate	**628**	3,722
Non-deductible write off	**247**	2,849
Foreign exchange adjustments	**(182)**	-
Unrealised timing differences	**(2,036)**	4,164
Historical tax losses forfeited due to continuity breach on takeover	**1,591**	-
Other expenses/(income)	**328**	(299)
	1,592	**2,695**
Adjustment recognised for current tax in prior periods (i)	**(2,790)**	2,400
(b) Income tax (credit)/expense	**(1,197)**	**5,095**

(i) Cue has an ongoing Indonesian tax matter relating to a notice of amended assessment which is being disputed by Cue Kalimantan Pte Ltd on behalf of SPC E&P Ltd (SPC). Cue is indemnified by SPC for any losses arising from this dispute and has recognised a tax liability as well as a receivable in the Consolidated Statement of Financial Position.

(c) Imputation credits available for subsequent reporting periods (i)	**-**	3,543

(i) With the OGOG shareholding reaching 69.87% the New Zealand shareholder continuity test threshold (as set out by the Inland Revenue Department) was breached resulting in the forfeiture of the Group's imputation credit balance. The previous balance reported was $3.543 million.

(d) Deferred tax

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

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

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing temporary differences. As at 30 June 2018 Cue have accumulated losses in New Zealand of $35.6 million (30 June 2017: $29.1 million), together with unclaimed tax deductions for production and development expenditure incurred previously. The Group has not recognised a New Zealand deferred tax asset as under current oil price assumptions it is not expected that sufficient future taxable profits will be generated. The future availability of accumulated tax losses remains subject to Cue satisfying the relevant business and shareholder continuity requirements for each jurisdiction.

9 Taxation (continued)

During the year there was a change in New Zealand tax laws which now allow a refundable credit for activities to restore certain sites to their original condition. The deferred tax asset of $2.9 million relating to the Maari restoration provision, which was previously not recognised in the financial statements, has been recognised as at 30 June 2018.

$000	2018	2017
The balance comprises temporary differences attributable to:		
Deferred Tax Assets		
Non-deductible provisions	**5,329**	145
	5,329	145
Deferred Tax Liabilities		
Oil & gas assets	**(6,126)**	(3,505)
	(6,126)	(3,505)
Net deferred tax liabilities	**(797)**	(3,360)
Movements:		
Net deferred tax liability at 1 July	**(3,360)**	(18,597)
Derecognised deferred tax balances from discontinued operations	**-**	19,581
Recognised in profit or loss	**2,767**	(4,291)
Recognised in other comprehensive income	**(204)**	(53)
Closing balance at end of year	**(797)**	(3,360)

10 Royalties expense

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

11 Discontinued Operations

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.

There are no discontinued operations in the current year. The information below relates to prior year comparatives.

On 14 December 2016, the Group approved the sale of its 15 per cent interest in the Kupe gas and oil field off Taranaki basin. The sale was subsequently finalised on 1 January 2017 with the risk and rewards of the permit passing on that date. 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.

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 basin. The sale became effective from 1 January 2017. Tamarind paid 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 US dollars $4.7 million of oil. A working capital adjustment of US dollars $6.0 million was also transferred to Tamarind. Tamarind will also assume all field retirement obligations.

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

The results were presented as discontinued in the Consolidated Statement of Comprehensive Income. The impact on the Group following the sale of these components is available in the 2017 Annual Report.

12 Business acquisitions

In May 2017 the Group agreed to purchase Mitsui's 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 the 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	(6,186)
Working capital adjustment	1,186
Total consideration transferred	**30,000**
Assets acquired and liabilities recognised at the date of acquisition	
Cash and cash equivalents	346
Receivables	28
Inventories	847
Oil and gas assets (i)	29,379
Payables and accruals	(600)
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.

13 Cash and cash equivalents

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

$000	**2018**	2017
Cash at bank and in hand	**19,978**	13,350
Deposits at call	**1,914**	3,331
Short term deposits	**75,190**	108,357
Share of oil and gas interests' cash	**928**	65
Total cash and cash equivalents at end of year	**98,010**	125,103

Cash and cash equivalents denominated by currency $000	**2018 Base Currency**	**2018 NZD Equivalent**	2017 Base Currency	2017 NZD Equivalent
NZ dollar	**33,489**	**33,489**	81,988	81,988
US dollar	**40,868**	**60,411**	31,388	42,868
AU dollar	**3,755**	**4,100**	236	247
ID rupiah	**84,822**	**9**	-	-
Total cash and cash equivalents at end of year		**98,010**		125,103

Deposits at call and short-term deposits

The deposits at call and short term deposits are currently bearing interest rates between **1.00% and 2.85%** (2017: 0.2% and 2.2%).

14 Receivables and prepayments

$000	2018	2017
Trade receivables	**6,657**	864
Provision for doubtful debts	**272**	
Share of oil and gas interests' receivables	**4,590**	5,625
Prepayments	**65**	34
Other	**188**	-
Total receivables and prepayments at end of year	**11,772**	6,523

Receivables and prepayments denominated by currency **$000**	**2018** **Base Currency**	**2018** **NZD Equivalent**	2017 Base Currency	2017 NZD Equivalent
NZ dollar	**3,025**	**3,025**	1,803	1,803
US dollar	**5,701**	**8,695**	3,242	4,627
AU dollar	**34**	**37**	89	93
ID rupiah	**148,642**	**15**	-	-
Total receivables and prepayments at end of year		**11,772**		6,523

15 Investments in subsidiaries

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

At 30 June 2018 the Group holds a 50.04 per cent interest in Cue Energy Resources Limited (30 June 2017: 50.04 per cent). Cue entities below reflect the Group's 50.04 per cent interest in Cue subsidiaries.

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

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

15 Investments in subsidiaries (continued)

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

Name of entity	Country of incorporation	Equity Holding 2018	Equity Holding 2017	Functional Currency
New Zealand Oil & Gas				
ANZ Resources Pty Limited *	Australia	**0%**	100%	AUD
Australia and New Zealand Petroleum Limited	New Zealand	**100%**	100%	NZD
NZOG 54867 Limited	New Zealand	**100%**	100%	NZD
NZOG 38483 Limited ***	New Zealand	**0%**	100%	NZD
NZOG 2013 O Limited	New Zealand	**100%**	100%	NZD
NZOG Asia Pty Limited	Australia	**100%**	100%	USD
NZOG Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG 54857 Limited	New Zealand	**100%**	100%	NZD
NZOG Developments Limited ***	New Zealand	**0%**	100%	NZD
NZOG Devon Limited	New Zealand	**100%**	100%	NZD
NZOG 2013T Limited	New Zealand	**100%**	100%	NZD
NZOG Energy Limited	New Zealand	**100%**	100%	NZD
NZOG Palmerah Baru Pty Limited **	Australia	**0%**	100%	USD
NZOG Offshore Limited	New Zealand	**100%**	100%	NZD
NZOG Pacific Holdings Pty Limited	Australia	**100%**	100%	USD
NZOG Pacific Limited	New Zealand	**100%**	100%	NZD
NZOG Services Limited	New Zealand	**100%**	100%	NZD
NZOG Taranaki Limited	New Zealand	**100%**	100%	NZD
NZOG Tunisia Pty Limited *	Australia	**0%**	100%	USD
Oil Holdings Limited ***	New Zealand	**100%**	100%	NZD
Pacific Oil & Gas (North Sumatera) Limited	Bermuda	**90%**	90%	USD
Petroleum Resources Limited	New Zealand	**100%**	100%	NZD
Resource Equities Limited ***	New Zealand	**0%**	100%	NZD
NZOG MNK Kisaran Pty Limited **	Australia	**0%**	100%	USD
NZOG MNK Bohorok Pty Limited	Australia	**100%**	100%	USD
NZOG MNK Palmerah Pty Limited **	Australia	**0%**	100%	USD
Cue Energy Resources *				
Cue Energy Resources Limited	Australia	**50.04%**	48.1%	AUD
Cue Mahakam Hilir Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue (Ashmore Cartier) Pty Ltd	Australia	**50.04%**	48.1%	AUD
Cue Sampang Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Taranaki Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Resources Inc *	USA	**50.04%**	48.1%	USD
Cue Kalimantan Pte Ltd	Singapore	**50.04%**	48.1%	USD
Cue Mahato Pty Ltd	Australia	**50.04%**	48.1%	AUD
Cue Exploration Pty Limited	Australia	**50.04%**	48.1%	AUD
Cue Cooper Pty Ltd *	Australia	**50.04%**	48.1%	AUD

* These companies have been deregistered during the 2018 financial year
** These companies have been sold during the 2018 financial year subject to regulatory approval
*** These companies have been liquidated during the 2018 financial year

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

16 Oil and gas interests

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

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

Name	Type	Country	Ownership 2018	2017
New Zealand Oil & Gas				
PML 38146 – Kupe (i)	Mining Licence	New Zealand	4.0%	0.0%
PEP 52717 – Clipper	Exploration Permit	New Zealand	50.0%	50.0%
PEP 55794 - Toroa	Exploration Permit	New Zealand	30.0%	30.0%
Kisaran PSC	Production Sharing Contract	Indonesia	22.5%	22.5%
Bohorok PSC	Production Sharing Contract	Indonesia	25.0%	45.0%
Palmerah Baru PSC (ii)	Production Sharing Contract	Indonesia	36.0%	36.0%
MNK Kisaran PSC (iii)	Production Sharing Contract	Indonesia	0.0%	11.3%
MNK Palmerah PSC (iii)	Production Sharing Contract	Indonesia	0.0%	15.8%
MNK Bohorok	Joint Study Agreement	Indonesia	20.3%	20.3%
Cue Energy Resources *				
WA-359-P	Exploration Permit	Australia	100.0%	100.0%
WA-389-P	Exploration Permit	Australia	100.0%	40.0%
WA-409-P	Exploration Permit	Australia	20.0%	20.0%
Mahakam Hilir PSC	Production Sharing Contract	Indonesia	100.0%	100.0%
PMP 38160 – Maari	Mining Permit	New Zealand	5.0%	5.0%
Sampang PSC	Production Sharing Contract	Indonesia	15.0%	15.0%
Mahato PSC	Production Sharing Contract	Indonesia	12.5%	12.5%

(i) Acquisition of 4% interest in Kupe completed on 8 December 2017 (refer to note 12).
(ii) In June 2018 an agreement was signed to sell the interest in Palmerah Baru to Bow Energy International Holdings Inc. subject to regulatory approval.
(iii) In August 2017 an agreement was signed to sell the interests in MNK Kisaran PSC and MNK Palmerah PSC to Bukit Energy Asia Pte. Limited.

* represents the percentage interest held by Cue Energy Resources Limited. The Group interest is 50.04% (2017: 50.04%) of the Cue interest.

16 Oil and gas interests (continued)

Share of oil and gas interests' assets and liabilities

$000	2018	2017
Current assets		
Cash and cash equivalents	**928**	65
Trade receivables	**617**	806
Inventory	**957**	778
Non-current assets		
Petroleum interests (ii)	**74,259**	53,911
Total assets	**76,761**	55,560
Current liabilities		
Short-term liabilities	**3,822**	2,437
Total liabilities	**3,822**	2,437
Net assets	**72,939**	53,123
Share of oil and gas interests' Loss		
Revenue (i)	**-**	-
Expenses	**(11,945)**	(14,559)
Loss before income tax	**(11,945)**	(14,559)

Interests relating to the Tui, Kupe and Pine Mills discontinued operations (refer note 11) are not included in 2017 comparatives, however the 4% participating interest in Kupe acquired December 2017 (refer note 12) is shown in the current year.

(i) Revenues above do not include petroleum sales in relation to the Kupe, Maari and Sampang 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.
(ii) Petroleum interests are prior to amortisation of production assets and borrowings.

17 Evaluation and exploration

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.

$000	2018	2017
Opening balance	**6,692**	14,580
Impairment of exploration asset	**-**	(7,567)
Revaluation of USD exploration and evaluation assets	**551**	(321)
Closing balance at end of year	**7,243**	6,692

18 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.

$000	**2018**	2017
Opening balance	**31,957**	207,937
Acquisition (i)	**29,379**	-
Expenditure capitalised	**3,272**	5,012
Impairment (ii)	**-**	(7,694)
Amortisation for the year	**(8,308)**	(24,880)
Revaluation of USD production assets	**1,254**	3,066
Abandonment provision	**7,294**	(3,808)
Disposals (iii)	**-**	(147,676)
Closing balance at end of year	**64,848**	31,957

18 Oil and gas assets (continued)

(i) In May 2017 the Group agreed to purchase Mitsui's 4 per cent interest in the Kupe gas and light oil field for $35 million. The Group previously held a 15 per cent share in Kupe, which was sold to Genesis Energy in the last financial year.

(ii) At 30 June 2018 the Group assessed each asset to determine whether an indicator of impairment existed. Indicators of impairment include changes in future selling prices, future costs and reserves. The recoverable amount of each oil and gas asset was estimated and compared to its carrying amount, which has resulted in no impairment (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) In the previous period the Groups' interest in the Kupe, Tui and Pine Mills assets were sold (refer note 11).

19 Other financial assets

$000	2018	2017
Security deposits	**16**	16
Total other financial assets at end of year	**16**	16

20 Payables

$000	2018	2017
Trade payables	**2,697**	2,328
Kisaran borrowings	**1,274**	1,146
Royalties payable	**-**	174
Share of oil and gas interests' payable	**3,822**	2,437
Other payables	**753**	845
Total payables at end of year	**8,546**	6,930

Payables denominated by currency	**2018 Base Currency**	**2018 NZD Equivalent**	2017 Base Currency	2017 NZD Equivalent
NZ dollar	**4,471**	**4,471**	3,581	3,581
US dollar	**2,421**	**3,578**	1,482	2,023
AU dollar	**400**	**437**	1,247	1,310
GB pound	**8**	**15**	-	-
ID rupiah	**439,231**	**45**	146,376	16
Total payables at end of year	**-**	**8,546**	-	6,930

21 Rehabilitation Provision

Provisions for restoration have been recognised where the Group has an obligation, as a result of its operating activities, to restore certain sites to their original condition. There is uncertainty in estimating the timing and amount of the future expenditure. The provision is estimated based on the present value of the expected expenditure. The discount rate used is the risk-free interest rate obtained from the country related to the currency of the expected expenditure. In the current year, the discount rate used to determine the provision was 2.88% from the United States. The initial provision and subsequent re-measurement are recognised as part of the cost of the related asset. The unwinding of the discount is recognised as finance costs in profit or loss.

$000	**2018**	2017
Carrying amount at start of year	**10,304**	79,006
Addition/(Reduction) in provision recognised	**7,095**	(2,302)
Foreign currency revaluation of provisions	**712**	-
Unwinding of discount	**531**	-
Reduction in provision due to disposal of Tui and Kupe assets	**-**	(66,400)
Carrying amount at end of year	**18,642**	10,304

22 Share capital

	Number of shares 000s	**$000**
Balance at 1 July 2016	345,513	318,089
Shares issued during the year	-	1
Partly paid shares issued	2,596	(27)
Shares cancelled as part of buyback program	(17,151)	(9,434)
Shares cancelled as part of capital return	(159,427)	(99,999)
Partly paid shares forfeited, converted to fully paid and cancelled	(3,682)	-
Balance at 30 June 2017	**167,849**	**208,630**
Shares issued during the year	**4,992**	**3,313**
Forfeited partly paid ESOP shares converted and sold	**(2,081)**	**-**
Partly paid ESOP shares exercised	**(2,911)**	**(26)**
Balance at 30 June 2018	**167,849**	**211,917**
Comprised of:		
Fully paid shares	**164,421**	**211,883**
Partly paid shares	**3,428**	**34**
Balance at 30 June 2018	**167,849**	**211,917**

During the year 2.9 million partly paid shares were exercised, converted to fully paid shares and sold for the benefit of ESOP participants (June 2017: nil). In addition, 2.9 million of forfeited partly paid shares were converted to fully paid shares and sold with the proceeds returning to the Group in the form of share capital (June 2017: 3.7 million partly paid shares were forfeited and converted into fully paid shares and immediately cancelled).

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 27.

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

During the year there was a dividend payment of 4c per share (fully imputed) paid on 3 November 2017.

23 Reserves

(a) Reserves

$000	2018	2017
Share based payments reserve	**147**	147
Foreign currency translation reserve	**7,414**	6,051
Total reserves at end of year	**7,561**	6,198

Movements:

$000	2018	2017
Share-based payments reserve		
Opening balance at 1 July	**147**	115
Share based payment expense for the year	**47**	32
Exercised and expired ESOP awards	**(47)**	-
Closing balance at end of year	**147**	147

$000	2018	2017
Foreign currency translation reserve		
Opening balance at 1 July	**6,051**	936
Impact on foreign currency translation reserve of disposals	**25**	-
Other foreign currency translation differences for the year	**1,338**	5,115
Closing balance at end of year	**7,414**	6,051

(b) Nature and purpose of reserves

(i) Foreign currency translation reserve

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

24 Income per share

	2018	2017
Profit attributable to shareholders ($000)	**762**	62,695
Weighted average number of ordinary shares (000)	**167,849**	311,450
Basic and diluted earnings per share (dollars)	**$0.005**	$0.20

25 Financial risk management

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

(a) Market risk

(i) Foreign exchange risk

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

25 Financial risk management (continued)

(ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue and recoverable value of oil and gas assets will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. The Group may enter into oil price hedge transactions in circumstances where the risk-adjusted returns to shareholders are enhanced as a consequence. The Group had no option call contracts at 30 June 2018 (2017: nil).

(iii) Concentrations of interest rate exposure

The Group has no external bank debt and therefore its main interest rate risk arises from short-term deposits held.

(b) Credit risk

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

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

(c) Liquidity risk

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

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

30 June 2018 $000	**6 months or less**	**6-12 months**	**1-2 years**	**2-5 years**	**More than 5 years**	**Contractual cash flows**
Payables	**8,546**	**-**	**-**	**-**	**-**	**8,546**
Tax liabilities	**5,291**	**-**	**-**	**-**	**-**	**5,291**
Total non-derivative liabilities	**13,837**	**-**	**-**	**-**	**-**	**13,837**

30 June 2017 $000	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years	Contractual cash flows
Payables	6,930	-	-	-	-	6,930
Tax liabilities	2,926	-	-	-	-	2,926
Total non-derivative liabilities	9,856	-	-	-	-	9,856

At 30 June 2018 the Group had no derivatives to settle (2017: Nil).

(d) Capital management

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

25 Financial risk management (continued)

(e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity prices and foreign currency exchange rates. The sensitivity table below shows the impact of exchange rate changes on current assets and liabilities and the impact of interest rate changes on current cash balances.

Favourable/(unfavourable) $m	Risk area	Sensitivity	**2018**	2107
Impact on Group profit before tax	Exchange rate	+5%	**(2.2)**	(2.1)
		-5%	**2.2**	2.1
Impact on foreign currency translation reserves in equity	Exchange rate	+5%	**(1.2)**	(0.7)
		-5%	**1.2**	0.7
Impact on interest income	Interest rate	+1%	**0.5**	1.2
		-1%	**(0.5)**	(1.2)

(f) Recognised assets and liabilities

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

(g) Financial instruments by category

$000	**2018 Carrying value**	2017 Carrying value
Assets		
Cash and cash equivalents	**98,010**	125,103
Trade and other receivables	**11,435**	6,489
	109,445	131,592
Liabilities		
Payables	8,546	6,930
	8,546	6,930

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

26 Related party transactions

Related parties of the Group include those entities identified in notes 15 and 16 as subsidiaries and oil and gas interests. All transactions and outstanding balances with these related parties are in the ordinary course of business on normal trading terms.

During the year OGOG completed a partial take over of the Group. On 19 January 2018, OGOG announced that their shareholding of the Group stood at 69.87% and they became the ultimate controlling party of the Group. The costs associated with the takeover incurred by the Group were reimbursed by OGOG.

The Group was also subject to a takeover offer from Zeta Energy (Pte) Ltd (Zeta) which was unsuccessful. The costs incurred by the Group in relation to this takeover were reimbursed by Zeta.

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

Key management personnel have been defined as the directors, the chief executive and the executive team for the Group. Cue management personnel have been included.

$000	2018	2017
Short term employee benefits	**3,317**	4,594
Share based payments	**308**	18
Termination benefits	**-**	1,620
Total	**3,625**	6,232

26 Related party transactions (continued)

During the year certain activities were undertaken between the Group and OGOG. For the year ended 30 June 2018 no costs have been on-charged to the Group.

No directors fees are charged for the four representatives of OGOG who are directors of the Group.

27 Share-based payments

A decision was made in 2017 to discontinue the current Employee Share Ownership Plan (ESOP). No allocations of new ESOP shares were made in the financial year ending 30 June 2018. The details below relate to the old scheme which will be phased out as final dates are reached and shares expire. A new long term incentive plan is in the process of being finalised.

The Group's ESOP was open to nominated employees. Under the plan there are currently 3.4 million (June 2017: 8.4 million) partly paid shares for which employees have paid $0.01 per share. After 2 years, and under certain conditions, the employee has the option to fully pay for the shares. This option lasts for 3 years. The cost of the ESOP to the Group is calculated using the Black Scholes option pricing model and in the year ended June 2018 $0.05 million (June 2017: $0.03 million) was expensed through the Consolidated Statement of Comprehensive Income. No shares were awarded in 2018 (June 2017: 2.6 million), 2.9 million shares were exercised in the year ending June 2018 (June 2017: nil) and expired/forfeited shares totalling 2.1 million were converted to ordinary shares and sold (June 2017: 3.7 million converted to ordinary shares and cancelled).

Participation in the ESOP was open to any employee (including a non-executive director) of the Group to whom an offer to participate was made by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee, in its discretion, was responsible for determining which employees were to be offered the right to participate in the ESOP, and the number of partly paid shares that could be offered to each participating employee. Under the ESOP partly paid shares were issued on the following terms:

Restriction periods - each partly paid share was issued on terms that require an escrow period to pass before the holder can complete payment for, and thereafter transfer, the shares. This was usually 2 years. There was 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"). During the financial year ending 30 June 2018, the plan administrators became aware of a change of control in the Group. Under the plan rules, a change of control provides ESOP holders with additional options including the option to effectively end the escrow period.

Issue price – this was set for each partly paid share at the time the offer was made to the participant and was the lesser of:

i) 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

ii) The last sale price of the Group'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 Group'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 were required to pay $0.01 per share at the time of issue.

27 Share-based payments (continued)

Rights - the rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Group. The partly paid shares rank equally with the ordinary shares in the Group. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Group, 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.

The table below provides a reconciliation of outstanding ESOP shares and their weighted average price.

	Number outstanding	Weighted average issue price
Balance at 1 July 2016	9,506	$0.89
Granted	2,596	$0.65
Forfeited	(3,682)	$0.96
Balance at 30 June 2017	8,420	$0.74
Exercised (i)	**(2,911)**	**$0.58**
Forfeited and sold	**(2,081)**	**$0.66**
Balance at 30 June 2018	**3,428**	**$0.94**

(i) The weighted average exercise price was $0.78 per share

A share based payment expense is 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 (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. This value is amortised over the escrow period of the plan, or sooner if the escrow period is reduced.

The 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.

As there was no allocation of ESOP shares during the year, no new valuation took place.

During the year 2.9 million partly paid shares were exercised resulting in payments to management and staff of $0.5 million.

28 Commitments and contingent assets and liabilities

(a) Exploration expenditure commitments

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

Cue's exploration portfolio includes a commitment of AU$34.8 million which includes Australian permit WA359P containing the Ironbark prospect. This permit is currently being marketed and a farm out process is ongoing.

(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.

$000	2018	2017
Within one year	**271**	519
Later than one year and not later than five years	**2**	280
	273	**799**

Operating leases relate to property leases for the Group.

(c) Contingent assets and liabilities

Cue Energy Resources Limited and Cue Resources Inc. have been named as defendants, along with a number of other companies, in litigation pending in Texas, USA in relation to the Pine Mills oil field. The Pine Mills oil field was sold on 10 November 2016. Cue Energy Resources Limited and Cue Resources Inc. believe the suit has no merit and have filed motions to dismiss the proceedings.

29 Events occurring after balance date

There are no material events that have occurred after balance date.

Independent Auditor's Report

To the shareholders of New Zealand Oil and Gas Limited

Report on the consolidated financial statements

Opinion

In our opinion, the accompanying consolidated financial statements of New Zealand Oil and Gas Limited (the company) and its subsidiaries (the group) on pages 2 to 26:

i. present fairly in all material respects the Group's financial position as at 30 June 2018 and its financial performance and cash flows for the year ended on that date; and

ii. comply with New Zealand Equivalents to International Financial Reporting Standards and International Financial Reporting Standards.

We have audited the accompanying consolidated financial statements which comprise:

— the consolidated statement of financial position as at 30 June 2018;

— the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended; and

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) ('ISAs (NZ)'). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the group in accordance with Professional and Ethical Standard 1 (Revised) Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Our responsibilities under ISAs (NZ) are further described in the auditor's responsibilities for the audit of the consolidated financial statements section of our report.

Our firm has also provided other services to the group in relation to tax compliance and advisory 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.

Scoping

The context for our audit is set by the major activities in the financial year ended 30 June 2018. In December 2017 the Group completed an agreement to buy a 4% interest in the Kupe gas and oil fields and production station ('Kupe') from Mitsui E&P Australia. The consolidated financial statements includes the 50.04% shareholding in Cue Energy Limited ('Cue') and its two production assets, Sampang PSC in Indonesia and Maari oil in New Zealand.

The scope of our audit is designed to ensure that we perform adequate work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the financial reporting systems, processes and controls, and the industry in which it operates.

In establishing the scope of audit work to be performed by the Component auditor for Group consolidation purposes, we determined the nature and extent of work to be performed would be a full scope audit. We kept in regular communication with component audit team throughout the year with discussions and formal instructions, including review of work performed, where appropriate. We also ensured that the component audit team had the appropriate skills and competencies which are needed for the audit.

Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the consolidated financial statements as a whole. The materiality for the consolidated financial statements as a whole was set at $1.3 million (2017: $2.3 million) determined with reference to a benchmark of group total assets. We chose total assets as the benchmark, compared to profit before tax, due to the change in Group's operating activities in the current year.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the shareholders as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the consolidated financial statements as a whole and we do not express discrete opinions on separate elements of the consolidated financial statements

The key audit matter	How the matter was addressed in our audit
Major Transactions – Acquisition of Kupe	
Refer to Note 12 of the Financial Report. In December 2017 the Group completed an agreement to buy a 4% interest in the Kupe gas and oil fields and production station ('Kupe') from Mitsui E&P Australia for $35 million. The acquisition of a business is complex and the accounting standards require the Group to identify all assets and liabilities acquired and estimate the fair value for each item. The acquisition is a key audit matter given its significance to the Group and the significant judgement involved in assessing the fair value of assets and liabilities acquired.	As part of our audit procedures over the acquisition of Kupe, we obtained key transaction documents and assessed the Group's fair value estimates of the assets and liabilities acquired. In particular our audit procedures focussed on significant judgements made by directors, including; — Evaluating the accounting treatment adopted by management, specifically assessing the determination of joint control and acquisition date. — Assessing the reasonableness of the fair value of Oil and gas assets by reviewing the key model assumptions in Group's fair value model. Given the inherent uncertainty associated with a value in use model, we also compared the fair value to acquisition price. — Assessing the fair value of the rehabilitation provision by comparing key assumptions such as expected timing and quantum of cash flows to third party operator reports.

The key audit matter	How the matter was addressed in our audit
Recoverability of oil and gas assets	
Refer to Note 18 to the Financial Report. The recoverability of oil and gas assets is a key audit matter due to the judgement involved in the assessing the recoverable value of the oil and gas assets. Key judgements include; — Future oil and gas prices; — Oil and Gas reserves and forecast production levels; — Discount rate; and — Future operating costs and capital costs	The procedures performed to assess the reasonableness of the recoverable value of the oil and gas assets included: — comparing future oil price assumptions with third party forecasts and publicly available forward price curves; — comparing future gas price assumptions to either contracted gas or third party forecasts; — comparing the production profiles and proved and probable reserves to third party reserve reports. Reviewing the reserve report to determine if the assumptions were reasonable and in line with our understanding and expectations; — challenging the discount rate used by comparing it to market participants and industry research; and — assessing estimated future costs by comparing to approved budgets and where applicable, third party data and historical trends.

Other information

The Directors, on behalf of the group, are responsible for the other information included in the entity's Annual Report. Other information may include the Chairman's review, Chief Executive's report, disclosures relating to production and reserves, corporate governance and statutory information. Our opinion on the consolidated financial statements does not cover any other information and we do not express any form of assurance conclusion thereon.

The Annual Report is expected to be made available to us after the date of this Independent Auditor's Report. Our responsibility is to read the Annual Report when it becomes available and consider whether the other information it contains is materially inconsistent with the consolidated financial statements, or our knowledge obtained in the audit, or otherwise appear misstated. If so, we are required to report such matters to the Directors.

Use of this independent auditor's report

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

Responsibilities of the Directors for the consolidated financial statements

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

— the preparation and fair presentation of the consolidated financial statements in accordance with generally accepted accounting practice in New Zealand (being New Zealand Equivalents to International Financial Reporting Standards) and International Financial Reporting Standards;

— implementing necessary internal control to enable the preparation of a consolidated set of financial statements that is 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 audit of the consolidated financial statements

Our objective is:

— to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error; and

— to issue an independent auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs NZ will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of these consolidated financial statements is located at the External Reporting Board (XRB) website at:

http://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our independent auditor's report.

The engagement partner on the audit resulting in this independent auditor's report is David Gates.

For and on behalf of

KPMG

KPMG
Wellington
27 August 2018