



# NEW ZEALAND OIL & GAS LIMITED

HALF YEAR REPORT  
to 31 December 2004

Exploration Concept

Seismic Survey

Exploration

Discovery

Production



## CHAIRMAN'S REPORT

### Dear Investor

I am pleased to report that intensive activity over the last six months has taken each of the Kupe, Tui and Pike River projects closer to final investment decisions, all of which are expected to be implemented this year; ahead of those decisions, much pre-development work is continuing.

A formal decision on Kupe is likely this October, after which NZOG will be able to fund the bulk of its \$40+million investment in this project through the gas sales and financing arrangements the company entered into with Genesis Power in November 2004.

Kupe will provide a long-term stream of revenues from both gas and light oil production.

Also offshore Taranaki, the Tui Area oil discoveries were declared commercial to develop during the period and the technical work currently under way is expected to result in NZOG and its partners making a final investment commitment to Tui by September 2005. Oil from Tui is expected to flow at high initial rates.

A lot of potential exists for a Tui development to be followed by other commercial discoveries within the same PEP 38460 permit and adjacent PEP 38483 area, when exploration drilling recommences after an imminent round of 3D seismic has been evaluated.

A mine manager has been appointed for the Pike River metallurgical coking coal mine, near Greymouth and the mine plan and transport options for coal export are close to finalisation. The Pike River development is to be financed independently of NZOG and a separate listing of the project is intended, with NZOG retaining a substantial position.

Attention is also being given to drilling of NZOG's large exploration targets such as Mangatoa and Felix, where discoveries could create a lot of extra value for the company.

NZOG's current financial situation is sound. The ruling high prices for oil, coking coal and gas make for a very attractive outlook for the company and its future growth.

On behalf of the Directors



R A Radford  
Executive Chairman  
7 March 2005

## 2004 HALF YEAR REPORT

The Half Year Report ending 31 December 2004 of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.



R F Meyer  
Director  
7 March 2005



R A Radford  
Director  
7 March 2005

## DEVELOPMENTS

### KUPE FIELD GAS/OIL FIELD (NZOG 15%)

#### Final Investment Decision

Engineering and associated pre-development work is presently underway and a final investment decision by the Kupe partners is expected to be made by October 2005. The initial development will occur within the central area of the Kupe South field ("CFA"), which contains "proven and probable" reserves of 230 petajoules of gas and 16 million barrels of oil.

#### Gas Sales and Financing Secured

Kupe is set to provide a substantial long-term cash flow for NZOG once production commences in 2007. Project production is expected to be 20 petajoules of gas and 1.5 million barrels of light oil per annum. NZOG's share of light oil reserves is 2.4 million barrels (proved and probable).

A foundation long-term gas sales and funding contract was signed with Genesis Energy in November 2004 under which NZOG has sold 35 petajoules of Kupe gas, and secured funding for 85% of development costs up to a cap of NZ\$40 million.

#### Project Design

The Kupe development will involve drilling of three new production wells and construction of an offshore

platform with a 30 kilometre pipeline to shore. The pipeline could link to a new onshore production station west of Hawera where the raw gas would be processed. Alternatively, if suitable commercial terms can be agreed with Natural Gas Corporation their existing facilities at Kapuni could be leased.

The engineering design necessary to go to tender for the offshore facilities is nearing completion and tenders are expected to be issued in the March 2005 quarter.

#### Minimal Environmental Impact

Resource consent applications have been lodged with local regulatory bodies, following completion of an assessment of environmental effects which demonstrates that adverse effects of the project proceeding are minimal.

#### Further Potential

Further potential for commercially developable reserves of gas exists in the Kupe mining permit area. The offshore facility currently being designed for the initial Central Field Area, will enable the tie-in of up to three satellite fields to accommodate production from any further discoveries.

### TUI AREA OIL DEVELOPMENT (NZOG 12.5%)

#### Tui and Amokura/Pateke Oil Discoveries

##### Declared Commercial

NZOG and its partners in this venture, determined in October 2004 that the offshore Tui and Amokura/Pateke ("Tui Area") oil fields are commercially viable to develop. This decision was based on a reserves base in the range of 20-30 million barrels of oil.

The current timetable envisages a final investment decision for this development to be made in the September 2005 quarter which would lead to first oil production in the December 2006 quarter.

##### Drilling During the Period

The Pateke-2 exploration well was drilled to the north of Amokura-1 where a 12 metre oil column was previously intersected in the Kapuni "F" sandstone interval. Logging while drilling measurements in Pateke-2 indicated a 13 metre oil column at the top of the Kapuni "F" sand. The oil water contact in Pateke-2

is at the same depth as Amokura-1, 4km to the south, indicating that both wells have drilled into the same pool of oil.

The Kiwi-1 exploration well was also drilled during the half year but failed to encounter economic oil and gas and was subsequently plugged and abandoned.

##### Project Design

Front End Engineering and Design ("FEED") work for the development of the Tui Area oil fields commenced in February 2005 and is scheduled for completion by August 2005. The recently completed pre-FEED studies have confirmed that the most economically attractive development concept for the Tui Area fields will involve four to five subsea oil production wells tied back to a floating production, storage and off loading facility ("FPSO").

The capital expenditure estimates for the project, allowing for contingency commensurate with the present stage of engineering, is within the range of US\$120 - \$150 million. NZOG's share is between NZ\$20 - \$30 million. This excludes the capital cost of an FPSO, which is likely to be leased.

Tui Area oil is all of high quality and is expected to flow at very good rates from the excellent quality Kapuni "F" sand reservoir.

Latest subsurface modelling indicates that relatively long horizontal wells and/or multi-lateral wells will be used to optimise economic recovery. These wells will be designed to allow high initial oil production rates in the vicinity of 30,000 barrels + per day. The nature of the thin reservoirs will lead to a rapid rise in water production, so facilities will be designed to handle large volumes of water. Reservoir engineering studies are being carried out to determine optimum flow rates and with the objective of increasing total recoverable oil.

#### Drilling in 2006

Early commitment to a drilling rig may be necessary to secure a "slot" in the increasingly tight schedules of rigs in the Australasian region. Development drilling is scheduled to commence in the June 2006 quarter. The

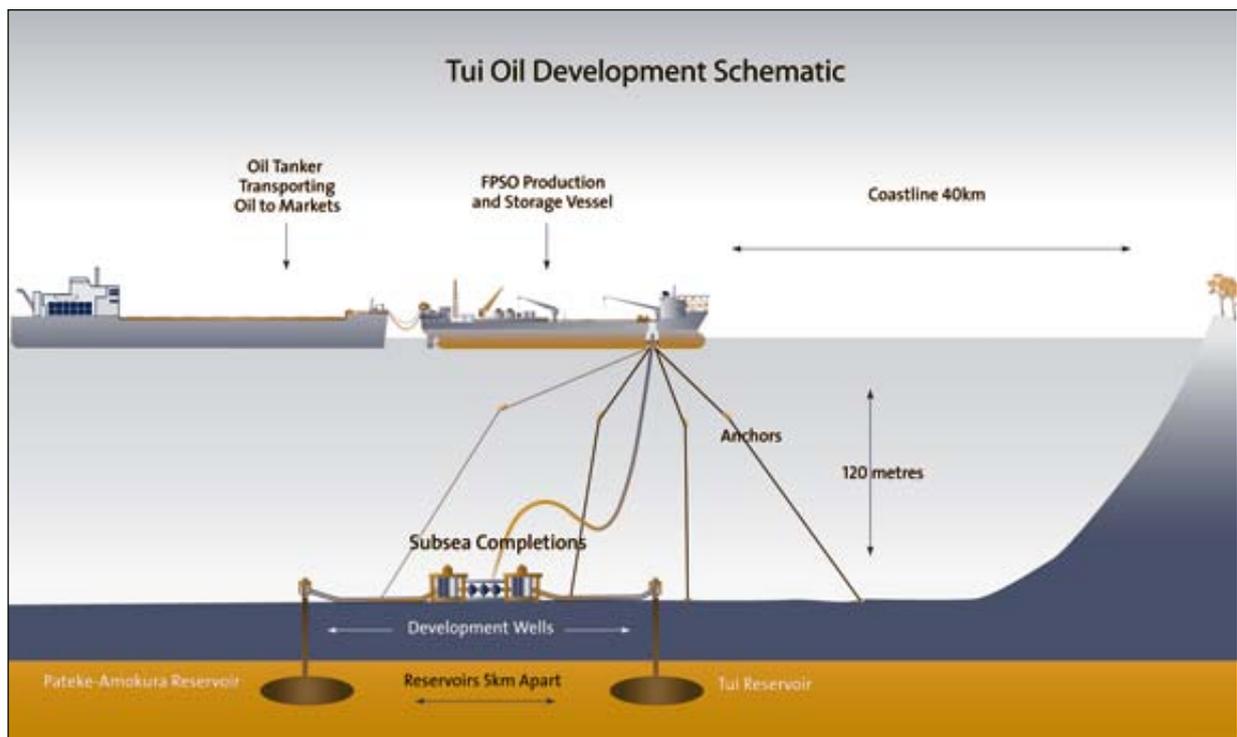
possibility of drilling at least one exploration well in the permit, within tie-in distance of the Tui Area development facilities, ahead of development drilling, is also being considered.

#### 3D Seismic Programme

The PEP 38460 joint venture will shortly acquire 3D seismic data over the northern part of the Pateke structure (a 72 km<sup>2</sup> programme) to extend the existing seismic coverage. The 3D seismic data will delineate the northern lobe of the oil field and finalise the reserve estimates and development drilling requirements for the Pateke oil accumulation.

#### Further Exploration Prospects in the Tui Development Area

The Tui Area discoveries have significantly upgraded the potential of other prospects within the same permit area. Several undrilled Kapuni "F" sand prospects identified from existing 3D seismic data lie about 7 kilometres southwest of the Tui area. Reservoir targets could be of similar size and quality to the Tui and Amokura/Pateke discoveries and further delineation of these prospects is continuing.



## PIKE RIVER COAL COMPANY (NZOG 72%)

### Final Investment Decision

A final investment decision on the Pike River coal project is scheduled for June 2005. This will take place following contracting of key infrastructural components, such as the access road, tunnel, mine dewatering complex and the transport chain.

The total mine development costs are estimated at NZ\$70 million, this amount being subject to the final development plan. A further NZ\$14 million will be required for working capital.

### Coal Sales

Pike River is set to become New Zealand's second largest export coal mine. First coal production is scheduled by June 2006 and production of 1 million tonnes per annum plus in the year commencing June 2007.

Pike River Coal Company Limited ("PRCC") has entered into preliminary agreements with two major Japanese steel mills, for sale of a combined 450,000 tonnes per annum of coal, for a minimum four year term. These agreements remain subject to several matters including price. Negotiations continue for additional coal sales contracts.

Pike River coal is a low ash, low phosphorus and high fluidity coke oven coal, valuable for use in the steel making process. International contracts for premium hard coking coal supplied in year commencing March 2005 have settled at around US\$125 per tonne, more than double last year's prices. Strong demand from

China and India has driven metallurgical coal prices to these record levels, but some easing of price is expected over the longer term.

### Access Agreement Signed

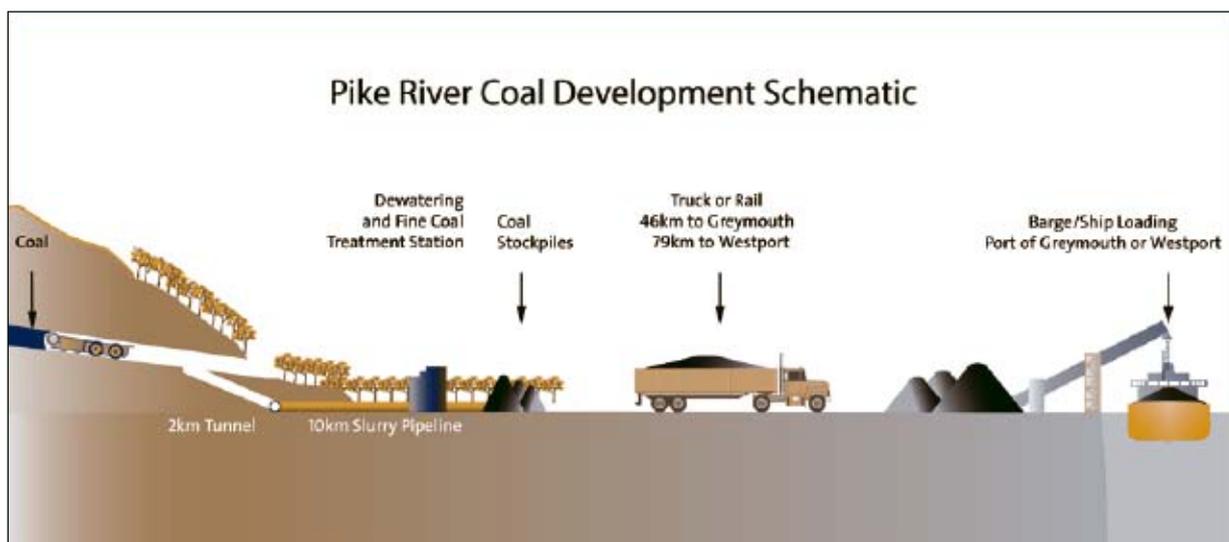
The detailed land access agreement with the Department of Conservation ("DoC") was signed in October 2004. The terms of access and the mine development design ensure that conservation values of the mine area are protected as fully as possible. The underground mine will have little surface impact, and through extensive pest eradication measures and funding of a blue duck enhancement programme, should enhance the local native birdlife habitat which is suffering from heavy predation.

### Transport Chain

PRCC is reviewing the most cost-efficient coal transport route, there being several alternatives including Westgate Port of Taranaki, Port of Lyttelton (Christchurch) and shipping to Port Kembla (NSW). Capital and operating costs for an export facility at Shakespeare Bay are unlikely to be competitive compared to other alternatives.

### Key Management Appointments

Highly experienced personnel have been employed in key positions, including mine manager, project manager and environmental manager. Recruitment of a mine workforce of 110 personnel for mining operations will commence following the final investment decision.



### Public Float

It is currently intended to list PRCC separately through a public offer in 2005, to which NZOG shareholders would be given a priority right to subscribe. PRCC continues to assess the merits and desirable mix of financing the Pike mine

development through project debt/equity including a public offer.

On listing PRCC would be the only New Zealand listed coal company, providing investors with access to this important sector of the economy.

## EXPLORATION

The Company has large interests in several offshore exploration prospects which are likely to be drilled in the next 6-12 months.

### MANGATOA PROSPECT (PEP 38478 NZOG 50%)

NZOG's recent remapping of this large gas prospect indicates that the mid-case of this prospect is for potential reserves of 1.8 trillion cubic feet of gas and 102 million barrels of condensate.

In 1986 the Te Ranga well was drilled to test a structure that is now recognised to be part of the Mangatua closure. The well was not tested, at a time when gas demand was low, despite encountering elevated gas in cuttings and indications of hydrocarbon saturation in wireline logs.

Seismic acquired by NZOG onshore and south of Mangatua in 2000 demonstrated for the first time, the southerly closure at Cretaceous level on the structure. Mangatua is located in the Cretaceous sequence at similar depth to the Pohokura field which is in the Eocene sands. Whilst Mangatua and Pohokura have different geological ages, they share similar depositional environments indicating potential for similar reservoir qualities.

Assessment of drilling options points to drilling a single vertical well offshore using a jack-up rig. The use of such a rig is currently envisaged as it will enable drilling both Mangatua and the Felix prospect in PEP 38729 in late 2005.

### FELIX PROSPECT (PEP 38729 NZOG 75%)

The Felix prospect (an Eocene prospect) lies 60 kilometres to the northeast and on trend from the large Pohokura gas/condensate field. Felix is a large closure within the Kapuni C Sands, at approximately 2,700 metres depth but some 1,000m shallower than Pohokura, which indicates potential for oil rather than gas.

Reprocessing of the existing seismic data has been completed and advanced geophysical studies have been initiated to better delineate the extent and depth structure of this prospect. As Felix is in 15 metres water depth, a jack-up rig is the most suitable means of drilling.

### TAITAPA PROSPECT (PEP 38484 NZOG 50%)

Taitapa is a Miocene prospect located in the permit immediately west of the Kupe field. This relatively shallow oil prospect (1,500 metres below sea level) is defined by a 3-way dip closure.

Mapping of the reprocessed seismic data has also identified closure in the deeper strata (Cretaceous levels) and the prospectivity at these levels is currently being evaluated. Both Miocene and Cretaceous closures may be targeted with a single well.

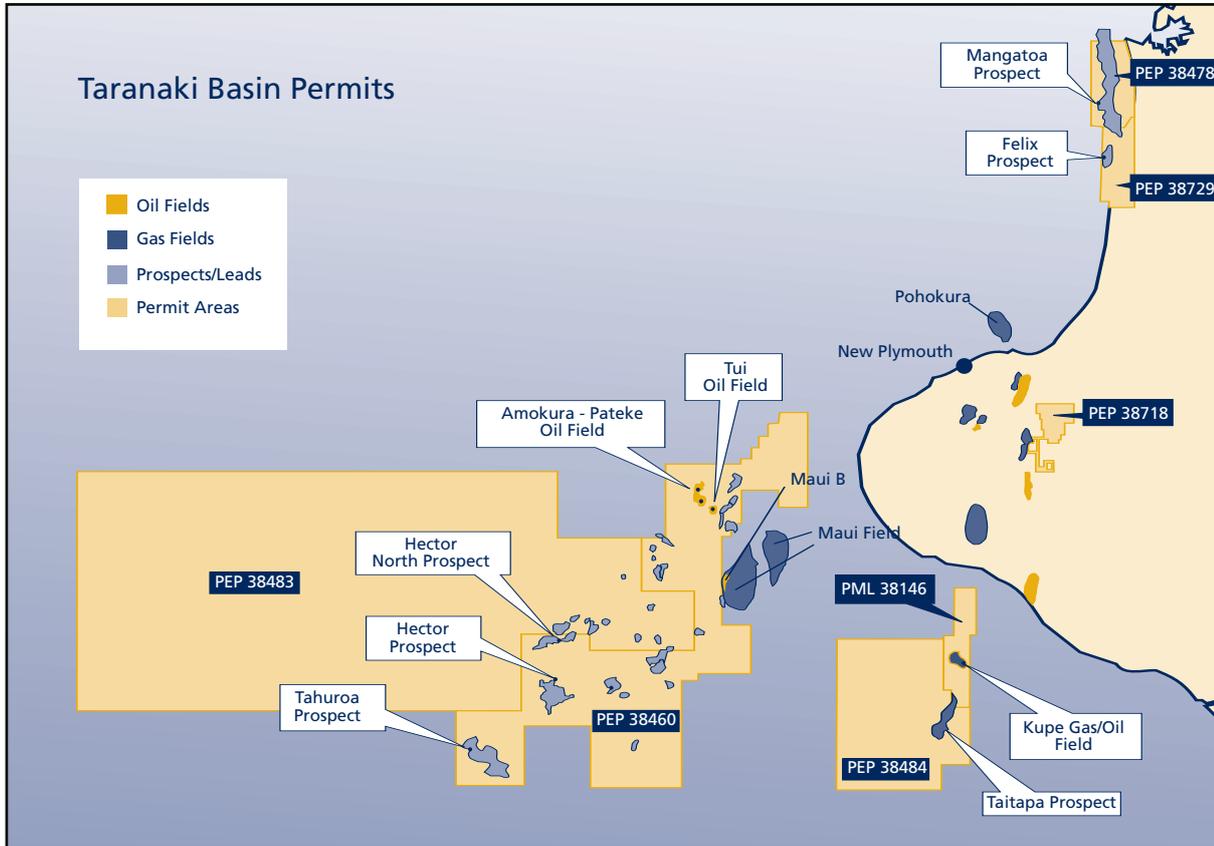
### HECTOR PROSPECTS (PEP 38483 NZOG 18.9%)

A 414 sq km 3D seismic survey is to be carried out over a series of Kapuni "F" Sand prospects in the southeast part of this permit in April 2005.

The Hector Area is considered highly prospective due to a combination of favourable reservoir development within the Kapuni "F" sand (the same oil-bearing interval as in the Tui area and Maui B oilfields) and the prime location of the area for oil charge from the adjacent Kahurangi Trough.

Several "F" sand leads have already been identified from existing 2D seismic and better definition of these is to be the main focus of the 3D survey. There is also a large stratigraphic trap within the Kapuni "C" sands in the Hector Area, which may be addressed when drilling one of the deeper "F" sand closures.

A portion of the PEP 38460 permit containing some Hector prospects is currently being merged into PEP 38483.



#### NZOG GROUP

Within this half year report, references to *NZOG* and *the company* are to be read as inclusive of subsidiary companies within the consolidated NZOG group.

#### ENERGY VALUES

1,000 standard cubic feet of gas yields approximately

1 gigajoule of heat

1 petajoule (PJ) = 1,000,000 gigajoules (GJ) = approximately 1 billion cubic feet (BCF)

1 gigajoule = 947,817 British Thermal Units (BTU)

Gas energy values vary depending on the carbon dioxide, other inerts and ethane and higher homologue content of the gas. Taranaki gas is generally around the above levels. For field reserve estimates where the gas quality is known, reserves can be accurately stated in PJ. For prospects where gas quality is not known the BCF is estimated volumetrically and the above assumptions applied in order to use consistent units of PJ. Calorific value is the basis for gas sales: \$/GJ.

## STATEMENT OF FINANCIAL PERFORMANCE

for the six months ended 31 December 2004

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Total revenue	2(i)	319	1,855	14,461	272	172	966
Operating (deficit)/surplus before taxation	2(ii)	(1,320)	(2,840)	7,772	70	(798)	(3,221)
Taxation expense	17	(103)	(12)	34	-	-	-
Operating (deficit)/surplus after taxation		(1,423)	(2,852)	7,806	70	(798)	(3,221)
<b>Net (deficit)/surplus for the period</b>		(1,423)	(2,852)	7,806	70	(798)	(3,221)
Net (deficit)/surplus comprises:							
Parent Interest		(1,406)	(2,844)	7,941			
Minority Interest	3	(17)	(8)	(135)			
		(1,423)	(2,852)	7,806			

## STATEMENT OF MOVEMENTS IN EQUITY

for the six months ended 31 December 2004

		CONSOLIDATED			PARENT COMPANY		
	Note	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Equity at beginning of period		49,556	41,302	41,302	1,876	5,089	5,089
Net (deficit)/surplus for the period		(1,406)	(2,844)	7,941	70	(798)	(3,221)
<b>Total recognised revenue and expenses</b>		48,150	(2,844)	7,941	1,946	(798)	(3,221)
Movement in minority interest during the period – net deficit		(17)	(8)	(135)	-	-	-
– shares issued in subsidiary company		1,121	236	440	-	-	-
2005 share options exercised	4(i)	103	-	8	103	-	8
<b>Equity at end of period</b>		49,357	38,686	49,556	2,049	4,291	1,876

The notes on pages 11 to 25 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION  
as at 31 December 2004

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Current Assets</b>							
Short term securities and cash deposits	5	11,805	4,738	17,695	11,846	4,288	16,459
Receivables	6	258	837	635	158	402	276
Inventories	7	150	423	100	-	-	-
<b>Total Current Assets</b>		<b>12,213</b>	<b>5,998</b>	<b>18,430</b>	<b>12,004</b>	<b>4,690</b>	<b>16,735</b>
<b>Non-Current Assets</b>							
Receivables	6	-	-	-	-	812	419
Investment in associate company	9	3,750	2,719	2,719	3,750	2,719	2,719
Investment in subsidiaries	9	-	-	-	62,070	67,193	64,699
Investment in listed resource company	8	1,463	962	1,463	541	40	541
Fixed assets	10	252	306	188	187	-	69
Petroleum and coal interests	12	33,284	31,869	29,308	-	-	-
Other	13	85	117	188	-	-	-
<b>Total Non-Current Assets</b>		<b>33,834</b>	<b>35,973</b>	<b>33,866</b>	<b>66,548</b>	<b>70,764</b>	<b>68,447</b>
<b>Total Assets</b>		<b>51,047</b>	<b>41,971</b>	<b>52,296</b>	<b>78,552</b>	<b>75,454</b>	<b>85,182</b>
<b>Current Liabilities</b>							
Creditors	14	1,506	2,523	2,352	325	261	367
Provisions	15	184	124	346	90	38	92
<b>Total Current Liabilities</b>		<b>1,690</b>	<b>2,647</b>	<b>2,698</b>	<b>415</b>	<b>299</b>	<b>459</b>
<b>Non-Current Liabilities</b>	15	-	638	42	76,088	70,864	82,847
<b>Total Liabilities</b>		<b>1,690</b>	<b>3,285</b>	<b>2,740</b>	<b>76,503</b>	<b>71,163</b>	<b>83,306</b>
<b>NET ASSETS</b>		<b>49,357</b>	<b>38,686</b>	<b>49,556</b>	<b>2,049</b>	<b>4,291</b>	<b>1,876</b>
<b>EQUITY</b>							
Attributable to Shareholders of the Company	4	44,964	35,473	46,266	2,049	4,291	1,876
Attributable to Minority Shareholders of the Group	3	4,393	3,213	3,290	-	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>49,357</b>	<b>38,686</b>	<b>49,556</b>	<b>2,049</b>	<b>4,291</b>	<b>1,876</b>

On behalf of the Board of Directors



R F Meyer  
Director 25 February 2005



R A Radford  
Director 25 February 2005

The notes on pages 11 to 25 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS

for the six months ended 31 December 2004

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Cash Flows From Operating Activities</b>						
<i>Cash was received from:</i>						
Interest received	289	230	325	276	225	389
Petroleum sales	-	1,328	1,467	-	-	-
	289	1,558	1,792	276	225	389
<i>Cash was paid for:</i>						
Production expenses	-	(748)	(752)	-	-	-
Other payments to suppliers and employees	(1,304)	(1,358)	(2,676)	(1,150)	(1,047)	(2,027)
	(1,304)	(2,106)	(3,428)	(1,150)	(1,047)	(2,027)
<b>Net cash flows from operating activities</b>	(1,015)	(548)	(1,636)	(874)	(822)	(1,638)
<b>Cash Flows From Investing Activities</b>						
<i>Cash was received from:</i>						
Sale of licence interests	-	-	17,535	-	-	-
Sale of shares in unlisted resource company	-	-	-	4,529	-	-
	-	-	17,535	4,529	-	-
<i>Cash was paid for:</i>						
Advances to subsidiary and associate companies	-	-	-	-	(1,737)	-
Petroleum and coal expenditures	(5,534)	(2,813)	(6,524)	-	-	-
Purchase of other fixed assets	(205)	-	(12)	(205)	-	(9)
Purchase of shares in listed resource company	-	-	(501)	-	-	(501)
Purchase of shares in unlisted resource company	-	-	-	(1,481)	-	-
	(5,739)	(2,813)	(7,037)	(1,686)	(1,737)	(510)
<b>Net cash flows from investing activities</b>	(5,739)	(2,813)	(10,498)	(2,843)	(1,737)	(510)
<b>Cash Flows From Financing Activities</b>						
<i>Cash was received from:</i>						
Issue of shares in partly owned subsidiary (PRCC)	1,120	236	438	-	-	-
Issue of shares from exercise of options	104	-	8	104	-	8
Proceeds from repayments of loans	150	-	172	(6,609)	-	25,573
Security deposit	-	-	19	-	-	-
Other	-	-	54	(2)	-	54
Proceeds from borrowings	-	-	-	-	65	-
	1,374	236	691	(6,507)	65	25,635
<i>Cash was paid for:</i>						
Repayment of borrowings	-	-	(360)	-	-	(14,449)
<b>Net cash flows from financing activities</b>	1,374	236	331	(6,507)	65	11,186

The notes on pages 11 to 25 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS (continued)

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Net (decrease)/increase in cash</b>	(5,380)	(3,125)	9,193	(4,538)	(2,494)	9,038
Cash at beginning of period	17,695	7,904	7,904	16,459	6,823	6,823
Effect of exchange rate changes on cash	(510)	(41)	598	(75)	(41)	598
<b>CASH AT END OF PERIOD</b>	11,805	4,738	17,695	11,846	4,288	16,459
<b>Made up as follows:</b>						
Short term securities and cash deposits	11,805	4,738	17,695	11,846	4,288	16,459

RECONCILIATION OF OPERATING (DEFICIT)/SURPLUS  
AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

<b>Operating (deficit)/surplus after taxation</b>	(1,406)	(2,844)	7,941	70	(798)	(3,221)
<i>Adjust for non-cash items in operating (deficit)/surplus</i>						
Amortisation of development expenditure over production	-	98	-	-	-	-
Provision against investment in subsidiaries	-	-	-	-	-	2,074
Depreciation	35	35	54	19	-	-
Future income tax benefit	-	14	-	-	-	-
Provision for income tax	104	-	(59)	-	-	-
Loss on sale of plant and equipment	36	8	-	-	-	-
Write-off of petroleum and coal expenditure	790	2,426	3,917	-	-	-
Write-off/(back) provision for impairments	(1,031)	-	-	(1,031)	-	-
Movement in minority interest	(116)	-	(133)	-	-	-
<i>Changes in assets and liabilities:</i>						
Decrease/(increase) in debtors	179	655	749	(32)	(63)	60
Increase/(decrease) in creditors	87	(939)	(645)	25	(2)	47
(Increase)/decrease in provisions	(203)	(26)	108	-	-	-
<i>Items included in other cash flow categories:</i>						
Sale of licence interests	-	-	(12,970)	-	-	-
Exchange losses/(gains)	510	41	(598)	75	41	(598)
<b>Net cash flows from operating activities</b>	(1,015)	(548)	(1,636)	(874)	(822)	(1,638)

The notes on pages 11 to 25 form part of and are to be read in conjunction with these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

## 1. STATEMENT OF ACCOUNTING POLICIES

**Reporting Entity**

The reporting entity is New Zealand Oil & Gas Limited (“the company” or “NZOG”) and its subsidiary companies (“the group”).

**Statutory Base**

The financial statements have been prepared in accordance with generally accepted accounting practice and in compliance with the Companies Act 1993 and the Financial Reporting Act 1993. The company is an issuer under the Financial Reporting Act 1993.

**Measurement Base**

The measurement base adopted is historical cost adjusted by the revaluation of certain assets.

**Changes in Accounting Policies**

There have been no material changes in accounting policies. All policies have been applied on bases consistent with those used in the previous period.

Summarised hereafter are the significant accounting policies adopted.

**Basis of Consolidation****(a) Principles of Consolidation***(i) Subsidiaries*

The consolidated financial statements incorporate the financial statements of the company together with the financial statements of its subsidiary companies.

The financial statements of subsidiaries are included in the consolidated financial statements using the purchase method. All significant intercompany transactions have been eliminated on consolidation.

Where subsidiaries are acquired during the period, their results are included only from the date of acquisition, while for subsidiaries disposed of during the period, their results are included to the date of disposal.

*(ii) Associate Companies*

Where material, associate companies are equity accounted and investments in associate companies are shown at cost plus the share of movement in net assets since acquisition. Where, in the opinion of the directors, a permanent diminution in value has occurred, investments in associate companies are written down to their recoverable amount.

*(iii) Treasury Capital*

The treasury stock accounting method is used to remove the company's interest in shares held directly or indirectly in its own capital (“treasury capital”). The effect is to reduce the company's externally available

capital and reserves and to eliminate the investment in the company.

**(b) Balance on Acquisition**

On the acquisition of a subsidiary, the fair value of net identifiable assets is ascertained. The difference between the fair value and the cost of investment is brought to account either as a premium (goodwill) or discount on acquisition.

Goodwill is amortised by systematic charges against income over the appropriate periods in which benefits are expected to be realised, but not exceeding twenty years. The periods over which the amounts are to be amortised are subject to annual review.

Any discount on acquisition remaining after elimination against the fair value of the non-monetary assets of the subsidiary is taken to the statement of financial performance as a gain.

**Production, Development, Exploration and Evaluation Expenditure**

Expenditure incurred on petroleum and coal ‘areas of interest’ is accounted for using the successful efforts method. An area of interest is defined by the group as a licence or permit area. Exploration and evaluation expenditure, together with certain inter-group advances relative to these expenditures, is written off in the statement of financial performance under the successful efforts method of accounting in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made.

Where expenditure carried forward in an area of interest or any part thereof, exceeds the directors’ valuation of that area of interest the costs are written down to the directors’ valuation.

Directors’ valuations of areas of interest, especially projects at a pre-development stage, are dependent upon a number of factors that are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the ability to secure sales contracts, levels of reserves, production profiles, estimates of future product sales prices, operating costs, capital expenditures, availability of financing and tax losses and legislative changes.

**(a) Production interests**

Production interests comprise exploration, evaluation and development costs (excluding fixed asset expenditure) incurred in relation to areas of interest in which petroleum production has commenced.

Expenditure on production interests is amortised using

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable proven reserves. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

**(b) Development interests**

Development interests comprise costs incurred on areas of interest which are being developed for production.

No amortisation is provided in respect of development areas of interest until they are reclassified as production areas following commencement of petroleum production.

**(c) Exploration and Evaluation interests**

Exploration and evaluation interests comprise costs incurred in areas of interest for which rights of tenure are current and:

- (i) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or
- (ii) exploration and/or evaluation activities in the area have not yet reached a stage which permits a reasonable assessment and/or evaluation of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, these areas are continuing.

The ultimate value of areas of interest is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of permits granted and joint venture agreements.

Sales of prospecting and mining permit rights are shown as revenue in the period earned.

**Restoration and Rehabilitation Expenditure**

Significant restoration and rehabilitation expenditure to be incurred subsequent to the cessation of production from production areas of interest is provided for and expensed in the statement of financial performance based on best estimates of the expenditure required to settle the present obligation at balance date.

**Joint Ventures**

Where material the group consolidates its interest in the assets, liabilities, revenues and expenses of unincorporated joint ventures under appropriate headings in the financial statements using the proportionate method of consolidation.

**Petroleum Sales Revenue**

Petroleum sales represent the group's share of invoiced sales following delivery of oil and gas products.

**Unearned Income**

Payments received under "take or pay" sales contracts where gas is not yet delivered, are treated as unearned income. The payments are recognised as income in the statement of financial performance once the gas is delivered.

**Administration and Operating Expenses**

The group incurs certain administration and operating expenses, which are recovered in the normal course of operations. A proportion of those expenses which relate to the group are reflected in the current year's accumulated production, development and exploration expenditure. In terms of the group's accounting policy, certain amounts of the accumulated expenditure may be written off each year. As a result, it is not possible to identify those individual administration and operating expenses, which have been charged to the statement of financial performance.

**Trade Receivables**

Trade receivables are stated at their estimated net realisable value.

**Inventories**

Field operation consumables and finished goods are valued at the lower of cost and net realisable value.

**Fixed Assets**

Fixed assets are stated at cost less an allowance for depreciation.

Depreciation has been provided for on a straight line basis so as to charge the cost of fixed assets over their estimated economic lives assessed as follows:

Office partitions, furniture & fittings	5-12 years
Technical & computer equipment	2-5 years

Pipelines and associated production facilities are depreciated over their economic life on a basis consistent with the recognition of revenue over their economic life or straight line basis whichever is more appropriate. Thus, the economic life of such equipment is dependent on future production and remaining reserves, and therefore varies from project to project. Where such costs are not considered to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**Investments in Short Term Securities**

Investments in short term securities are recorded at cost, or at cost adjusted for premium or discount amortisation. Premiums and discounts are capitalised and amortised from the date of purchase to maturity.

**Investments in Listed Resource Companies**

Investments in listed resource companies are recorded at the lower of cost and net realisable value.

**Investments in Wholly Owned Subsidiaries**

In the parent company's financial statements, investments in wholly owned subsidiaries are recorded at cost or directors valuation, except where, in the opinion of the directors, there is a permanent diminution in value, in which case they are written down to their estimated recoverable amount.

Where wholly owned subsidiary companies have sold petroleum or coal prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have revalued the investment in those companies to an amount not exceeding their underlying net assets.

**Foreign Currencies**

Transactions in foreign currencies are translated at the New Zealand rate of exchange ruling at the date of the transaction. At balance date foreign monetary assets and liabilities, including those of integrated foreign operations, are translated at the closing rate, and exchange variations are included in the statement of financial performance as operating items.

**Financial Instruments**

The group is a party to financial instruments as part of its day to day operating activities. Financial instruments, as defined under the Financial Reporting Standard issued by the Institute of Chartered Accountants of New Zealand, include short term securities and cash deposits, investments in listed resource companies, receivables, creditors and borrowings, certain non current assets and non current liabilities as well as certain off balance sheet instruments entered into in order to manage the fluctuation in oil prices.

Revenues and expenses (including gains and losses) in relation to all financial instruments are recognised in the statement of financial performance. All financial instruments other than off balance sheet instruments are recognised in the statement of financial position.

**Statement of Cash Flows**

- (a) Cash includes cash on hand and at bank, short term deposits, bank bills and government stock less any overdraft.
- (b) Operating cash flows represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.
- (c) Investing cash flows represents cash flows arising from the acquisition and divestment of investment and productive assets. Productive assets comprise fixed assets and accumulated petroleum and coal expenditure.
- (d) Financing cash flows represents cash flows arising from cash transactions affecting the capital structure of the group and cash flows from debt financing activities excluding interest on debt finance which is included in operating cash flows.

Certain cash flows are netted in order to provide more meaningful disclosure.

**Taxation**

Income tax is recognised on the operating surplus/(deficit) before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

However, the net future income tax benefit relating to timing differences and tax losses is not carried forward as an asset in the statement of financial position unless the benefit is virtually certain of being realised.

**Comparative Figures**

Where necessary, the amounts for the previous periods are reclassified to facilitate comparison.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 2. TOTAL REVENUE AND OPERATING (DEFICIT)/SURPLUS BEFORE TAXATION

Operating (deficit)/surplus before taxation has been determined after:

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>(a) Crediting as income:</b>						
<b>Sales revenue</b>						
Petroleum sales	-	1,070	1,113	-	-	-
<b>Other revenue</b>						
Sale of licence and royalty rights	-	-	12,409	-	-	-
Interest received from:						
Short term securities	286	177	335	272	172	366
Other (including unrealised exchange gains)	33	608	604	-	-	600
<b>Total revenue</b>	<b>319</b>	<b>1,855</b>	<b>14,461</b>	<b>272</b>	<b>172</b>	<b>966</b>

Petroleum sales revenue of \$1,070,000 to 31 December 2003 represents the group's share of revenue from the Ngatoro oil and gas field (onshore Taranaki). The group's interest in Ngatoro (PMP38148) was sold on 11 February 2004.

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>(ib) Charging as expenses:</b>						
Amortisation of development expenditure over production	-	98	126	-	-	-
Directors' fees	65	60	113	65	60	113
Exchange losses	510	40	-	75	42	-
Fees paid to parent company auditors	28	15	68	28	13	66
Fees paid to parent company auditors for other services	2	24	41	(2)	24	41
Fixed asset depreciation	35	35	54	19	-	-
Operating expenditure	1,240	1,997	2,496	1,048	831	1,894
Petroleum and coal exploration expenditure written off/(down) to valuation	790	2,426	3,791	-	-	-
Write off/(back) provision against investment	(1,031)	-	-	(1,031)	-	-
Provision against investment in subsidiaries	-	-	-	-	-	2,074

## 3. MINORITY INTEREST

The amount attributable to minority interest in the statement of financial position at 31 December 2004 represents a 27.2% (31 December 2003: 28.3%) minority interest in Pike River Coal Company Limited ('PRCC') and a 40% (31 December 2003: 40%) minority interest in Pafule Pty Limited ('Pafule').

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4 SHAREHOLDERS' EQUITY

## CONSOLIDATED AND PARENT COMPANY

		Unaudited 6 months ended 31 Dec 2004 Number of Shares 000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 Number of Shares 000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 Number of Shares 000	Audited 12 months ended 30 June 2004 \$000
<b>Reported paid in share capital</b>							
Paid in share capital – opening balance		133,964	58,564	133,951	59,999	133,951	58,556
Options exercised	(i)	173	104	-	-	13	8
		134,137	58,668	133,951	59,999	133,964	58,564
Options issued		-	1,443	-	-	-	1,443
Treasury share elimination		(5,865)	(2,794)	(5,864)	(2,794)	(5,865)	(2,794)
Paid in share capital-closing balance		128,272	57,317	128,087	57,205	128,099	57,213

## CONSOLIDATED

## PARENT COMPANY

	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Paid in share capital</b>	57,317	57,205	57,213	57,317	57,205	57,213
<b>Reserves</b>						
Retained (deficit) reserves brought forward	(13,838)	(21,779)	(21,779)	(61,802)	(58,581)	(58,581)
Net (deficit)/surplus for the period	(1,406)	(2,844)	7,941	70	(798)	(3,221)
Retained (deficit) reserves carried forward	(15,244)	(24,623)	(13,838)	(61,732)	(59,379)	(61,802)
<b>Share revaluation reserve</b>						
Opening and closing balance	-	-	-	6,465	6,465	6,465
<b>Asset revaluation reserve</b>						
Opening and closing balance	2,891	2,891	2,891	-	-	-
<b>Total shareholders' equity</b>	44,964	35,473	46,266	2,049	4,291	1,876

## Notes:

- (i) During the half year ended 31 December 2004 the Company had on issue 72,110,381 options ("2005 options") at an issue price of NZ\$0.02. Each option entitles the holder to subscribe for one share in the capital of the Company at an issue price of NZ\$0.60 exercisable anytime up to 30 June 2005. 173,097 options were exercised in the half year ended 31 December 2004.
- (ii) All shares issued are fully paid. Each issued share is entitled to one vote.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 5. SHORT TERM SECURITIES AND CASH DEPOSITS

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Bank	1,750	608	1,298	3,117	158	613
Cash on deposit	(i) 10,055	4,130	16,397	8,729	4,130	15,846
	11,805	4,738	17,695	11,846	4,288	16,459

**Note:**

Included in cash on deposit are US dollar balances of US\$2,373,000 (NZ\$3,269,000) (31 December 2003:US\$184,000 (NZ\$281,000))

## 6. RECEIVABLES

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Current receivables</b>						
Advances to associates	-	150	150	-	150	150
Interest receivable	-	22	7	-	54	7
Tax refund	-	11	-	-	-	-
Trade receivables	258	654	478	158	198	119
	258	837	635	158	402	276
<b>Non-current receivables</b>						
Advances to subsidiaries	(i) -	-	-	-	812	419

**Notes:**

- (i) Inter-group advances between wholly owned subsidiaries and the parent are on interest free terms and no repayment terms have been arranged.
- (ii) Included in trade receivables at 31 December 2004 was US\$98,000 (NZ\$181,000) (31 December 2003: US\$475,000 (NZ\$909,000)) which was not hedged.

## 7. INVENTORIES

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Field operation consumables	150	423	100	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 8. INVESTMENTS IN LISTED RESOURCE COMPANIES

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Non-current</b>							
Shares at book value	(i)	1,463	962	1,463	541	40	541
Market value		2,117	1,269	2,117	578	60	578

**Notes:**

(i) Pan Pacific Petroleum NL.

## 9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Investment in subsidiaries		-	-	-	72,671	75,719	75,300
Provision for diminution		-	-	-	(10,601)	(8,526)	(10,601)
		-	-	-	62,070	67,193	64,699
Investment in associate - unlisted shares	(i)	3,750	2,719	2,719	3,750	2,719	2,719

**Notes:**

(i) Equity accounting for associate companies has not been applied as the amounts involved are not material.

## 10. FIXED ASSETS

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>(i) Production assets</b>							
Cost		-	1,410	-	-	-	-
Accumulated depreciation		-	(1,253)	-	-	-	-
Book value		-	157	-	-	-	-
<b>(ii) Other fixed assets</b>							
Cost		281	601	520	206	-	-
Accumulated depreciation		(29)	(452)	(332)	(19)	-	-
Book value		252	149	188	187	-	-
<b>Book value of fixed assets</b>		252	306	188	187	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 11. JOINT VENTURES

NZOG group interests held at 31 December 2004, in significant unincorporated joint ventures established to explore, develop and produce petroleum products and the contributions made by those joint ventures to group results are as follows:

		CONSOLIDATED			PARENT COMPANY		
		Percentage Interest			Percentage Interest		
		Unaudited 6 months ended 31 Dec 2004	Unaudited 6 months ended 31 Dec 2003	Audited 12 months ended 30 June 2004	Unaudited 6 months ended 31 Dec 2004	Unaudited 6 months ended 31 Dec 2003	Audited 12 months ended 30 June 2004
	Note	%	%	%	%	%	%
<b>Licence (Joint Ventures)</b>							
PML 38146 (Kupe)	(i)	15.0	19.0	15.0	-	-	-
PMP 38148 (Ngatoro)	(ii)	-	35.4	-	-	-	-
PEP 38460 (Tui, Amokura Pateke)		12.5	12.5	12.5	-	-	-
PEP 38484 (West Kupe)	(iii)	50.0	-	50.0	-	-	-
PEP 38478 (Mangatoa)		50.0	50.0	50.0	-	-	-
PEP 38483 (West Maui Deep Block)	(iv)	15.0	15.0	15.0	-	-	-
PEP 38718	(v)	28.6	25.0	25.0	-	-	-
PEP 38728 (Makino)	(vi)	-	56.0	56.0	-	-	-
PEP 38729 (Felix)		75.0	75.0	75.0	-	-	-
PEP 38768 (Pukearuhe)	(vii)	56.0	-	56.0	-	-	-

The financial statements of all joint ventures are unaudited.

**Notes:**

- (i) The consolidated entity sold a 4% interest in PML 38146 (Kupe) on 3 February 2004.
- (ii) The consolidated entity sold its interest in PMP 38148 (Ngatoro field) on 11 February 2004.
- (iii) PEP 38484 was granted over the main exploration prospects contained in the former PEP 38472 after Balance date.
- (iv) A 15% participating interest in PEP 38483 was acquired on 15 December 2003.
- (v) The PEP 38718 permit interest increased due to the withdrawal of the other participants.
- (vi) The PEP 38728 Makino permit was relinquished on 16 August 2004.
- (vii) The PEP 38768 Pukearuhe permit is being relinquished.

The contribution made by joint ventures to group results was to increase revenues by nil (31 December 2003: \$1,061,027) and expenses by \$790,257 (31 December 2003: \$2,855,872).

Included in the assets and liabilities of the NZOG group are the following joint venture assets and liabilities.

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Current Assets</b>						
Short term securities and cash deposits	1,486	263	1,096	-	-	-
Trade receivables	53	23	102	-	-	-
Field operation consumables	150	423	100	-	-	-
	1,689	709	1,298	-	-	-
<b>Non-Current Assets</b>						
Fixed assets	-	157	-	-	-	-
Petroleum interests	20,938	32,519	17,959	-	-	-
	20,938	32,676	17,959	-	-	-
<b>Total Assets</b>	22,627	33,385	19,257	-	-	-
<b>Current Liabilities</b>						
Creditors and borrowings	746	1,977	1,611	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Non-Current Liabilities</b>						
Provisions	-	562	-	-	-	-
Total Liabilities	746	2,539	1,611	-	-	-
Net Assets held in Joint Ventures	21,881	30,846	17,646	-	-	-

## 12. PETROLEUM AND COAL INTERESTS

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Carrying Values</b>							
<i>Petroleum production – Ngatoro PMP 38148</i>		-	1,648	-	-	-	
<i>Petroleum and Coal exploration and evaluation expenditure</i>							
Accumulated expenditure brought forward		29,308	30,073	30,073	-	-	
Expenditure capitalised during the year:							
Petroleum exploration permits (i)		1,650	2,237	4,570	-	-	
Coal mining licence - Pike River – MP 41453 (ii)		997	535	-	-	-	
Petroleum mining licence – Kupe PML 38146 (iii)		2,172	97	955	-	-	
Charge/(release) to operating surplus		(843)	(2,426)	(6,825)	-	-	
Total accumulated exploration and evaluation expenditure carried forward		33,284	30,221	29,308	-	-	
<b>Total accumulated expenditure</b>		33,284	31,869	29,308	-	-	

## Notes:

- (i) Expenditure in relation to petroleum exploration permits is net of amounts written off including the unsuccessful Kiwi well. Petroleum expenditure carried forward includes amounts relating to the successful Tui, Amokura and Pateke wells in PEP 38460 ("Tui Area").
- (ii) Coal exploration and evaluation expenditure relates to partly owned subsidiary Pike River Coal Company Limited ("PRCC"). The amount carried in the financial statements is supported by financial studies and pricing of equity issued by PRCC to third party investors during the half year ended 31 December 2004.
- (iii) The actual amount recoverable for each the Kupe, Tui Area and Pike River projects is dependent upon a number of factors which are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the level of reserves, estimates of future product sales prices, operating costs and capital expenditures and of tax losses and legislative changes. The directors believe that the accumulated petroleum exploration and evaluation expenditure for each of these projects is recoverable through each project proceeding to development.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 13. OTHER NON-CURRENT ASSETS

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Deferred tax asset	(i)	5	54	100	-	-	-
Taxation receivable		14	-	23	-	-	-
Security deposits		66	63	65	-	-	-
		85	117	188	-	-	-

**Note:**

(i) The future income tax benefit arises solely from consolidation of Pafule.

## 14. CREDITORS

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
Trade creditors	1,506	2,523	2,352	324	261	367

## 15. PROVISIONS AND NON-CURRENT LIABILITIES

	Note	CONSOLIDATED			PARENT COMPANY		
		Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Current</b>							
Employee leave entitlements	(ii)	93	85	254	-	-	-
Other		91	39	92	90	38	92
		184	124	346	90	38	92
<b>Non-Current</b>							
Restoration	(i)	-	562	-	-	-	-
Employee leave entitlements	(ii)	-	76	42	-	-	-
Advances from wholly owned subsidiary companies to parent		-	-	-	76,088	70,864	82,847
		-	638	42	76,088	70,864	82,847
<b>(i) Movements in restoration provision</b>							
Opening balance		-	562	562	-	-	-
Charge to operating surplus		-	-	(562)	-	-	-
Closing balance		-	562	-	-	-	-
<b>(ii) Movements in employee provision</b>							
Opening balance		296	187	187	-	-	-
(Release) to operating surplus		(203)	(26)	109	-	-	-
Closing balance		93	161	296	-	-	-

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**16. FINANCIAL INSTRUMENTS****Foreign Exchange Risk**

The group operates United States dollar bank accounts for oil sales proceeds and to meet US denominated expenditures.

**Credit Risk**

Financial instruments which potentially subject the group to credit risk consist primarily of short term securities and cash deposits, investments in listed resource companies, trade receivables and certain non current assets.

No collateral is required by the group to support financial instruments subject to credit risk. The group places its cash and short-term investments with and through financial institutions with the intention of limiting the amount of credit exposure to any one financial institution.

The group has no reason to believe credit losses will arise from any of the above financial instruments. However, the maximum amount of loss, which may possibly be realised, is the carrying value of the financial instrument.

**Fair Values**

The carrying amount of short-term securities and cash deposits, trade receivables and creditors approximates fair value due to the short maturity of these instruments. Adequate provision is held in respect of trade receivables.

Estimated fair values, based upon net realisable value, of the group's remaining financial instruments at 31 December 2004 are as follows:

	Carrying Value Unaudited 6 months ended 31 Dec 2004 \$000	Fair Value Unaudited 6 months ended 31 Dec 2004 \$000	Carrying Value Unaudited 6 months ended 31 Dec 2003 \$000	Fair Value Unaudited 6 months ended 31 Dec 2003 \$000	Carrying Value Audited 12 months ended 30 June 2003 \$000	Fair Value Audited 12 months ended 30 June 2004 \$000
<b>Consolidated</b>						
Investments in listed resource companies	1,463	2,117	962	1,269	1,463	2,117
Security deposits	65	65	63	63	65	65
<b>Parent Company</b>						
Investments in listed resource companies	541	578	40	60	541	578

**Interest Rate Risk**

The interest rate spread and the contractual maturity dates of the group's short-term securities and cash deposits are as follows:

	Maturity Date	Interest Rate
Short Term Securities and Cash Deposits:		
Bank and cash on deposit	At call	6.5%
Security deposits	June 2005	6.6% to 6.8%
United States dollar deposits	At call	1.2%

All other financial instruments are non-interest bearing.

**17. TAXATION****(a) New Zealand Oil & Gas Limited and wholly owned subsidiaries**

New Zealand Oil & Gas Limited and wholly owned subsidiaries have tax losses carried forward at 31 December 2004 of \$52,091,000 (31 December 2003: \$62,956,000). The net future income tax benefit of these tax losses is not carried forward as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## (b) Consolidated and Parent

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
	Note					
<b>i) Income tax expense</b>						
Operating (deficit)/surplus before taxation		(2,351)	(2,840)	7,772	(961)	(798)
Income tax (benefit)/expense at 33%		(776)	(937)	2,565	(317)	(263)
<b>Adjusted for tax effect of:</b>						
Permanent differences - New Zealand		795	947	(2,658)	317	263
		19	10	(93)	-	-
<b>Consolidated from Pafule:</b>						
Permanent differences		-	-	1		
Difference in foreign tax rates		(2)	(1)	8		
Income tax expense on operating surplus before tax items		17	9	(84)		
Tax losses not brought to account		86	2	48		
Less income tax under provided in prior period		-	1	2		
<b>Income tax expense attributable to operating (deficit)/surplus</b>		103	12	(34)		
<b>ii) Future income tax benefit (consolidated from Pafule)</b>						
Opening balance		100	68	68		
Movement during the period		(100)	(14)	32		
Exchange rate movement during the period		-	-	-		
Closing balance		-	54	100		
<b>iii) Taxation losses not taken into account</b>						
Taxation losses not recognised in New Zealand	(i)	52,091	62,956	47,231	21,437	27,556
					27,342	

**Notes:**

- (i) The value of taxation losses not brought to account at 31 December 2004 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.
- (ii) The taxation losses above include timing differences of \$4,128,821 (31 December 2003: \$3,263,546) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

**18. RELATED PARTY DISCLOSURES**

Related parties of the company include those entities identified in note 11 and 22 as subsidiaries, joint ventures and associates.

Material transactions with related parties during the year are set out in Notes 2, 6, 9, 11, 12, 19 and 22. There are no material balances due to or from related parties at 31 December 2004.

There are no additional related parties with whom material transactions have taken place.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 19. EMPLOYEE SHARE OWNERSHIP PLAN

## (a) Description of Employee Share Ownership Plan (ESOP)

NZOG Nominees Limited ("Nominees") held the following securities in the Company in its capacity of plan company and trustee of the Company's ESOP.

	NZOG SHARES			2005 OPTIONS		
	Unaudited 6 months ended 31 Dec 2004 Number 000	Unaudited 6 months ended 31 Dec 2003 Number 000	Audited 12 months ended 30 June 2004 Number 000	Unaudited 6 months ended 31 Dec 2004 Number 000	Unaudited 6 months ended 31 Dec 2003 Number 000	Audited 12 months ended 30 June 2004 Number 000
<b>Allocated to employees</b>						
Options to purchase	4,793	5,278	5,148	-	-	-
Savings shares	722	764	763	-	-	-
<b>Unallocated</b>	1,086	1,200	1,143	1,355	1,355	1,355
	6,601	7,242	7,054	1,355	1,355	1,355
As a percentage of total reported capital	5.2%	5.7%	5.5%			

**Notes:**

- (i) Other than the above option allocations, no NZOG securities held in the ESOP are subject to put or call options, nor are the NZOG securities used as security for borrowings by the NZOG group or any other person.
- (ii) The NZOG Board's Remuneration Committee (which comprises only non-executive directors) nominates employees to participate in the ESOP and determines the numbers and exercise prices of options to be granted. Exercise prices are set at a minimum to market value at date of granting, to which an escalation factor generally applies.

**(b) Funding**

NZOG group holds redeemable preference shares in Nominees, at a cost of \$3,750,000, (book value \$3,750,000) which can be redeemed upon the Company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

Advances of nil (31 December 2003: \$150,000) are due to the NZOG group from Nominees at a nil rate of interest and are repayable on demand.

Funding by employees to acquire saving shares amounts to \$297,595 (31 December 2003: \$297,595)

	CONSOLIDATED			PARENT COMPANY		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>Investment and advances</b>						
Investment in shares	3,750	2,719	2,719	3,750	2,719	2,719
Advances	-	150	150	-	150	150
	3,750	2,869	2,869	3,750	2,869	2,869

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**(c) Control**

Nominees is an associate company of NZOG. Voting rights in respect of NZOG shares vest in Nominees as to unallocated shares and to the respective employees in the case of allocated shares. The shareholders of Nominees hold the right to appoint the directors of Nominees.

**(d) Financial Position and Performance of the ESOP**

	CONSOLIDATED MARKET VALUES			CONSOLIDATED COST		
	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000	Unaudited 6 months ended 31 Dec 2004 \$000	Unaudited 6 months ended 31 Dec 2003 \$000	Audited 12 months ended 30 June 2004 \$000
<b>(i) Financial Position</b>						
<b>Equity</b>						
Share capital				3,750	3,750	3,750
Retained deficit				(1,181)	(1,330)	(1,313)
				2,569	2,420	2,437
<b>Assets</b>						
Securities:						
- allocated	5,382	2,902	4,264	2,139	2,061	1,924
- unallocated	2,256	720	1,248	484	664	722
	7,638	3,622	5,512	2,623	2,725	2,646
Less provision for diminution in value	-	-	-	(153)	(153)	(153)
	7,638	3,622	5,512	2,470	2,572	2,493
Bank	109	7	107	109	7	107
Debtors	1	1	-	1	1	-
	7,748	3,630	5,619	2,580	2,580	2,600
<b>Less Liabilities</b>						
Advances due to NZOG	-	(150)	(150)	-	(150)	(150)
Creditors	(11)	(10)	(13)	(11)	(10)	(13)
	(11)	(160)	163	(11)	(160)	(163)
Net Assets	7,737	3,470	5,456	2,569	2,420	2,437
<b>(ii) Financial Performance</b>						
Accounting and legal fees				3	2	7
Gain on sale of securities				(135)	-	(21)

The ESOP financial statements are unaudited at the date of these NZOG financial statements.

**20. GEOGRAPHICAL SEGMENTS**

The Company operates in the petroleum and coal industry in New Zealand.

**21. COMMITMENTS****Capital Expenditure Commitments**

At 31 December 2004 the group had capital expenditure commitments of nil (31 December 2003: nil).

**Exploration Commitments**

- (a) In order to maintain the various permits, in which the group is involved, the group has ongoing commitments as part of its normal operations to meet various operational expenditures. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.
- (b) Security deposits of \$65,000 (30 June 2004: \$65,000) are held subject to licensed work programme commitments being met.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**22. SUBSIDIARY COMPANIES AND ASSOCIATES****Wholly Owned Subsidiary Companies**

ANZ Resources Pty Limited [see note (i)]	Nephrite Enterprises Limited
Australia and New Zealand Petroleum Limited	NZOG Services Limited
Australia & New Zealand Petroleum Limited [see note (i)]	Oil Holdings Limited
Curdridge Investments Limited (in liquidation)	Petroleum Equities Limited
Delta Petroleum Limited	Petroleum Resources Limited
Kupe Royalties Limited	Resource Equities Limited
National Petroleum Limited	Stewart Petroleum Company Limited

## GROUP INTEREST

	Note	2004 %	2003 %
<b>Partly Owned Subsidiaries</b>			
Pafule Pty Limited	(i)	60	60
Pike River Coal Company Limited	12(ii)	72	72
<b>Associate Companies</b>			
NZOG Nominees Limited	19	50	50

**Notes:**

- (i) Australian registered company.
- (ii) All subsidiary and associate companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry. The associate company is an investment company. Partly owned subsidiary Pafule is an administration services company. Pike River Coal Company is involved in the coal mining industry.

**23. EARNINGS PER SHARE**

	31 December 2004	31 December 2003	30 June 2004
Basic earnings per share	(1.90)	(1.60)	5.9
Weighted average number of ordinary shares outstanding during the period used in the calculation of basic earnings per share	134,018,703	133,951,332	133,952,582
Diluted earnings per share	0.18	(0.02)	5.06
Weighted average number of ordinary shares and options outstanding during the period used in the calculation of diluted earnings per share	206,129,084	206,279,084	206,129,084

## AUDIT REVIEW

**To the Shareholders of New Zealand Oil & Gas Limited**

We have completed a review on the financial statements contained on pages 7 to 25 in accordance with the Review Engagement Standards issued by the Institute of Chartered Accountants of New Zealand. The financial statements provide information about the past financial performance and financial position of New Zealand Oil & Gas Limited and its subsidiary companies (the "Group") as at 31 December 2004.

**Directors' responsibilities**

The Directors of New Zealand Oil & Gas Limited are responsible for the preparation of financial statements which give a true and fair view of the financial position of the Group as at 31 December 2004 and the results of its operations for the six month period ended on that date.

**Reviewers' responsibilities**

It is our responsibility to express an independent opinion on the financial statements presented by the Directors and report our opinion to you.

**Basis of opinion**

A review is limited primarily to enquiries of company personnel and analytical review procedures applied to the financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

**Review opinion**

Based on our review, nothing has come to our attention that causes us to believe that the financial statements contained on pages 7 to 25 do not give a true and fair view of the financial position of the Group as at 31 December 2004 and the results of its operations for the six month period ended on that date.

Our review was completed on 25 February 2005 and our opinion is expressed as at that date.

A handwritten signature in black ink that reads 'KPMG' in a stylized, cursive font.

Wellington

## COMPANY PROFILE

New Zealand Oil & Gas Limited (NZOG) is an independent company listed on the New Zealand and Australian stock exchanges. Most of "NZOG's" 10,000 shareholders are individual investors.

NZOG is actively advancing several oil and gas development and exploration assets in the Taranaki Basin, New Zealand and a coking coal deposit in Westland, South Island of New Zealand.

## CORPORATE DIRECTORY

### Directors

R A Radford CA  
Executive Chairman and Managing Director

R F Meyer *ONZM, BE, PhD, DistFIPENZ*  
Deputy Chairman

P G Foley *BCA, LLB*

S J Rawson *BSc, MSc*

D R Scoffham *MA, MSc*

### Management

R A Radford  
Chief Executive

G A Ward *BBS, CA*  
General Manager

### Registered and Head Office

Level 20  
125 The Terrace  
PO Box 10725, Wellington  
New Zealand  
Telephone: +64 4 495 2424  
Facsimile: +64 4 495 2422

### Auditors

KPMG  
KPMG Centre  
135 Victoria Street, Wellington  
New Zealand

### Shareholder Information

For information on number of shares or options held, holding statements and changes of address contact the registrars:

#### New Zealand

BK Registries  
PO Box 384  
138 Tancred Street  
Ashburton,  
New Zealand  
Telephone: +64 3 308 8887  
Facsimile: +64 3 308 1311

#### Australia

Registries Limited  
PO Box R67  
Royal Exchange  
Sydney NSW 1223  
Australia  
Telephone: +61 2 9279 0677  
Facsimile: +61 2 9279 0664

For company information contact the company:  
Toll free 0800 000 594 (within New Zealand)

Shareholders are encouraged to receive company announcements directly via the internet at the website below.



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[enquiries@nzog.net](mailto:enquiries@nzog.net)