



# NEW ZEALAND OIL & GAS LIMITED

ANNUAL REPORT 2004

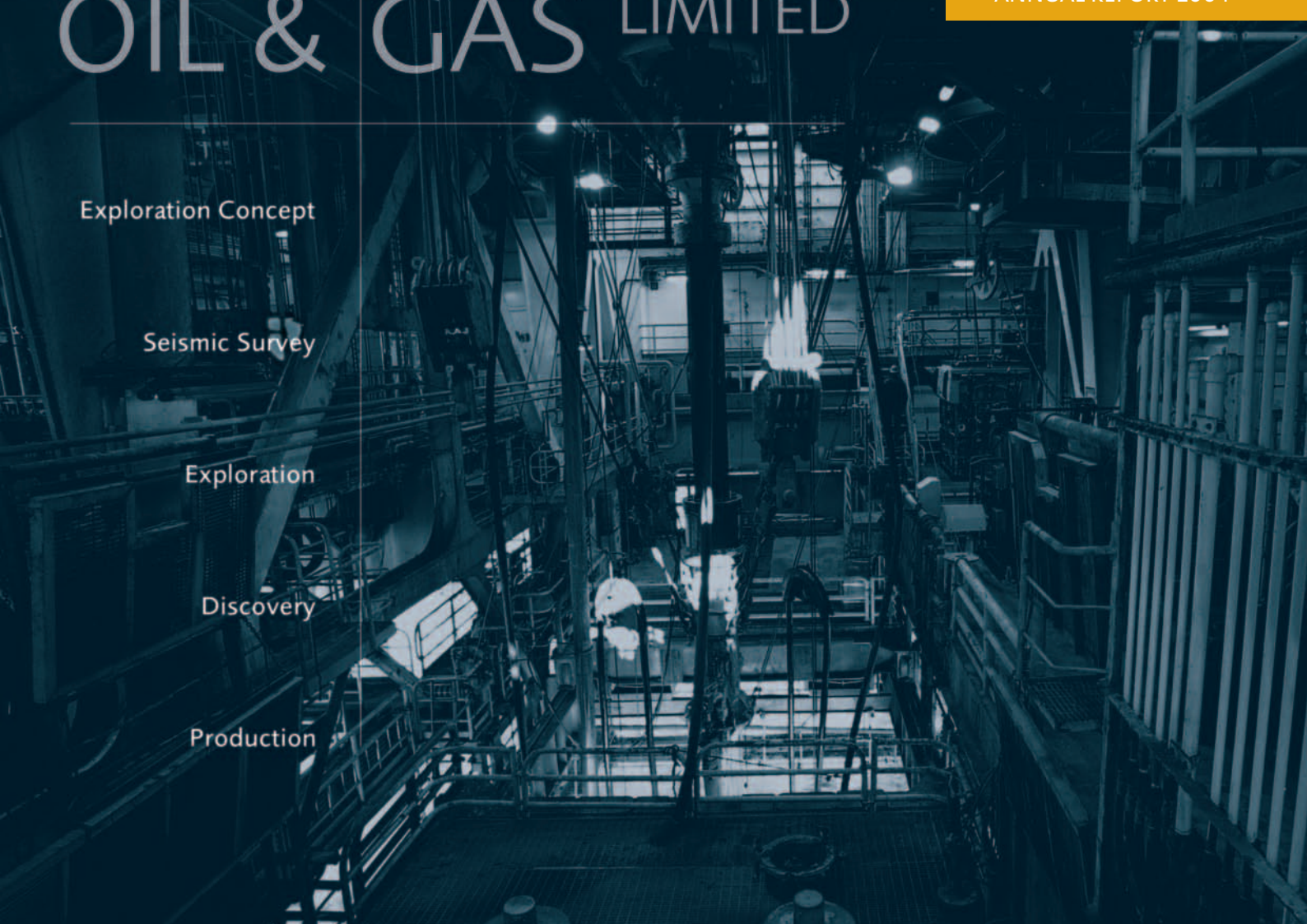
Exploration Concept

Seismic Survey

Exploration

Discovery

Production

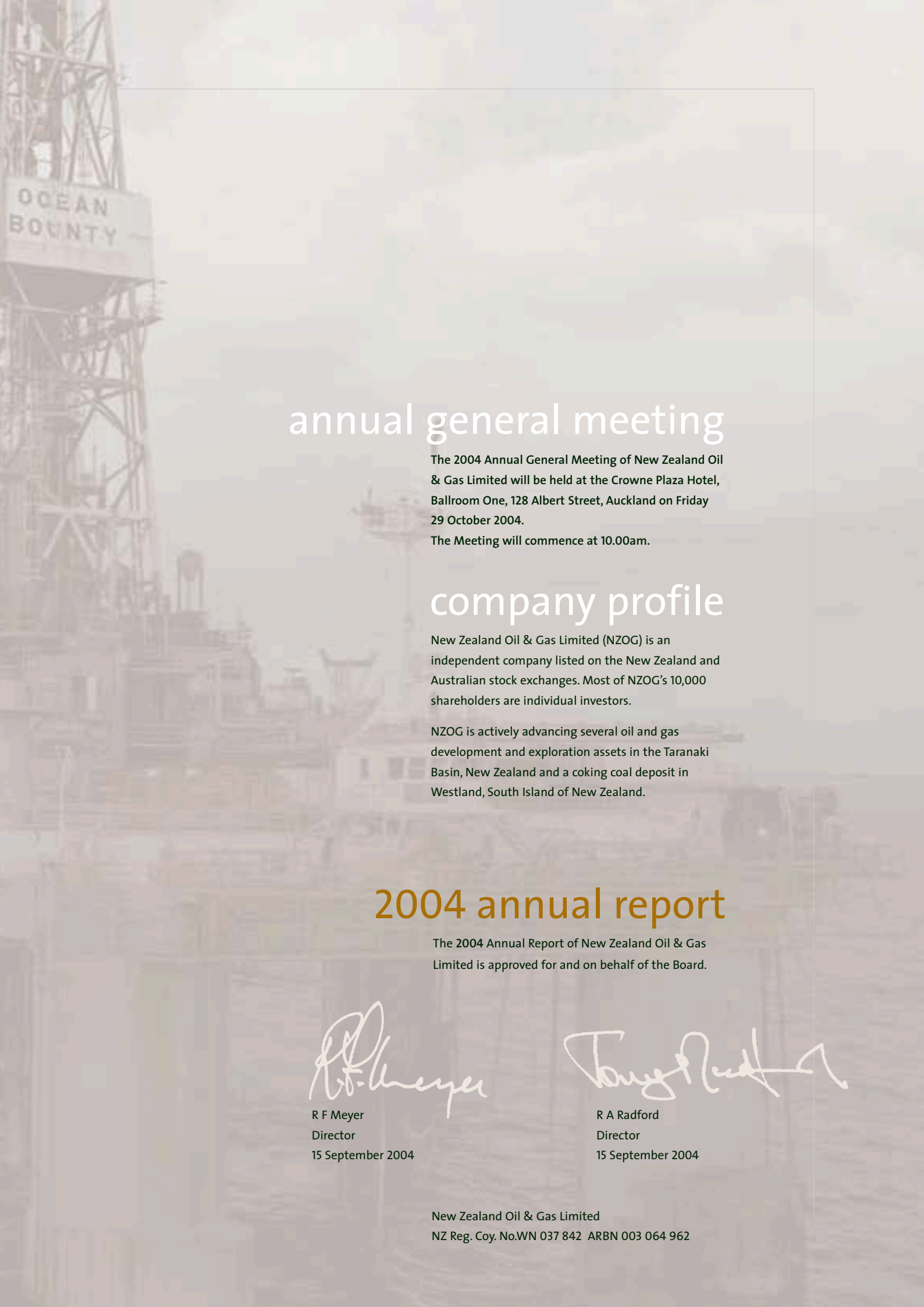






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## annual general meeting

The 2004 Annual General Meeting of New Zealand Oil & Gas Limited will be held at the Crowne Plaza Hotel, Ballroom One, 128 Albert Street, Auckland on Friday 29 October 2004.

The Meeting will commence at 10.00am.

## 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.

## 2004 annual report

The 2004 Annual Report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.

R F Meyer  
Director  
15 September 2004

R A Radford  
Director  
15 September 2004

## EXECUTIVE CHAIRMAN'S REPORT

Dear Investor,

I am very pleased to report a profitable financial year for the company and that all three of NZOG's key projects have been substantially advanced during the past 12 months.

The \$7.9 million profit for the year ended 30 June 2004 resulted mainly from the disposal of NZOG's minority interest in the Ngatoro field and sale of a 4% interest in the Kupe project. These gains, plus some pre-sale income from Ngatoro, were more than sufficient to absorb exploration costs written off and other expenses.

The company's three most advanced projects are Kupe, Pike River and Tui-Amokura-Pateke.

Re-organisation of ownership of interests within the Kupe joint venture and appointment of an experienced operator, combined with high demand for sale of the gas stream component of production, now have Kupe on track for a commitment to this \$250 million development to be made in June 2005. This will see production commencing by mid 2007, to provide NZOG with a long term earnings stream from its share of Kupe's oil and gas reserves.

The Pike River metallurgical coking coal mine has also been progressed, on both the regulatory and development fronts. In March 2004, the Minister of Conservation gave conditional consent to access the mine through land administered by his department. The detailed terms of an access agreement are in the final stages of negotiation.

The high quality hard coking coal to be produced from the Pike River mine is currently in high demand, as evidenced by major price rises and steel mills issuing letters of intent to purchase Pike coal.

The focus is now on developing the mine (including financing) and securing an efficient transport chain through to the point of export, most likely Shakespeare Bay, near Picton. The intention is to commit to the development by early 2005 and to achieve first production from this long-life mine by early 2006.

Tui-Amokura-Pateke, NZOG's third key project, has arisen from the company's continued and relatively aggressive exploration of PEP 38460, its "West Maui" licence.

The outlook for developing Tui oil, discovered in February 2003, has been greatly enhanced by two similar discoveries made by drilling the Amokura and Pateke fields in recent months.

The combined reserves calculations for the West Maui oil discoveries are to be available later this year. At this stage, the outlook appears favourable for a development decision by mid 2005.

In addition to these three projects, NZOG holds some excellent exploration prospects, such as Mangatōa, Gamma and Felix, all of which hopefully will be drilled in 2005, and several undrilled prospects in the West Maui licence.

Mangatōa is a large gas prospect, which the company believes was intersected by the Te Ranga well drilled back in 1986. Felix is seen as a large Kapuni C sand closure, prospective for oil or gas. Gamma is a large stratigraphic prospect currently being detailed by interpretation of recently acquired seismic data.

As NZOG owns between 50% and 75% of these three prospects, the company intends to obtain funding of wells through part sale of interests to other companies.

The company's transition from an exploration company to a significant production company is now firmly under way. The Kupe oil and gas and Pike River coal projects are being developed simultaneously in an environment of high prices for these commodities. At this stage, the outlook for a third development is favourable, following the three oil discoveries in the West Maui permit. The company also has high quality exploration prospects which could realise substantial value, when drilled during 2005. NZOG offers investors the opportunity to participate in a growing New Zealand based upstream energy company with solid development assets and high exploration upside.

Overall the outlook for New Zealand Oil & Gas is excellent.

ON BEHALF OF THE DIRECTORS



R A RADFORD EXECUTIVE CHAIRMAN

15 September 2004



An aerial photograph of a large offshore oil rig in the middle of the ocean. The rig has a tall derrick and a complex network of pipes and platforms. A supply ship is visible in the background, and another rig is partially visible to the right. The water is dark and choppy.

# operations report

West Maui Oil Discoveries  
Kupe Gas and Oil Development  
Pike River Coal Development  
Sale of Ngatoro Field  
Gamma and X prospects  
Mangatoa prospect  
Felix prospect  
Onshore Taranaki

## OPERATIONS REPORT

## West Maui Oil Discoveries

## Offshore oil development

The outlook for an offshore oil development in the “West Maui” permit (PEP 38460) appears promising following three oil discoveries over the past 18 months. The West Maui joint venture expects to have assessed likely oil reserves by November 2004 and will then evaluate development concepts. Sub-sea wellheads tied to a leased floating production storage and offloading vessel (“FPSO”) is a likely method of developing the discoveries, with first production indicatively targeted for mid 2006, subject to confirmation of sufficient oil reserves.

Important steps towards a possible development during the past year included:

- completion of a 3D seismic survey and identification of prospects
- farm-out by NZOG of a 7.5% interest in the permit to Mitsui
- oil discoveries at Amokura and Pateke.

Similar gross oil columns in the Kapuni F sands ranging from 10 to 13 metres, were encountered by the three successful wells – Amokura-1 and Pateke-2 drilled this year, and Tui-1, drilled in 2003. Reservoir quality appears to be excellent. Good production rates from the West Maui discoveries are expected, as Kapuni F Sands in the nearby Maui field are known to flow oil at high rates.

Analysis of rock samples and down-hole electronic logs from the West Maui wells, indicate that individual horizontal production wells could flow at 5,000 to 10,000 barrels of oil per day.

Amokura and Pateke appear to be in the same ‘pool’ of oil, having the same oil-water contact. Amokura-1 was the first well drilled using data from the 3D seismic survey acquired over a 350 square kilometre area last year.

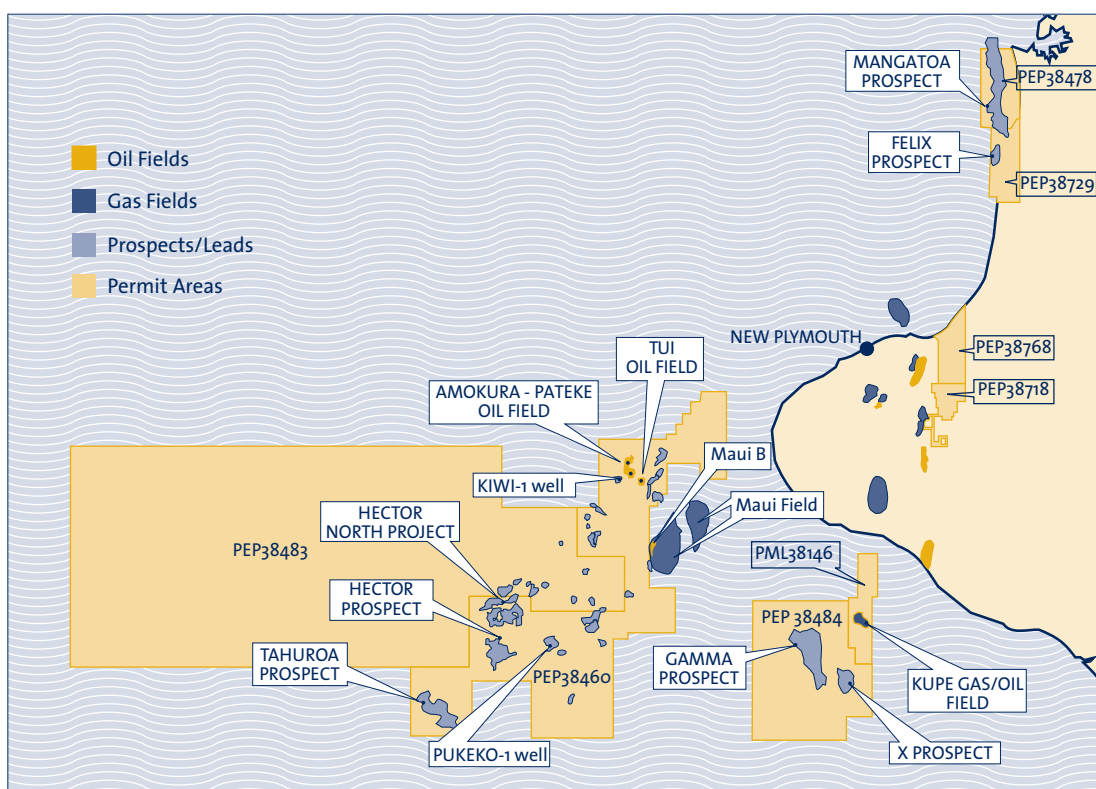
The last well in this year’s drilling programme, Kiwi-1, located about 4 kilometres to the west of the Amokura-Pateke discovery was drilled in August 2004, but did not locate oil.

## Financial Impact

West Maui has the potential to be a cornerstone asset for the company. The net cash flow impact for NZOG can only be calculated once reserves and the method of development are determined. At oil prices of US\$40/bbl (NZ\$60/bbl) combined production from a development of 15,000 barrels per day would equate to a gross sales revenue of NZ\$900,000 each day (NZOG share NZ\$112,500 per day).

NZOG’s share of the cost of the four exploration wells drilled in the West Maui permit this year were met to the extent of 60% by Mitsui under terms of the October 2003 farm-out arrangement.

## New Zealand Oil &amp; Gas Limited Taranaki Basin Permits and Interests



**Pukeko-1 oil shows**

The Pukeko-1 exploration well was drilled during May 2004 to a total depth of 4,190 metres encountering intermittent oil shows in the North Cape Formation over extended intervals at 4,055-4,160 metres and 3,910-3,918 metres. However, wireline log data run down-hole, indicated that the reservoir comprised interbedded shales and sandstones with poor reservoir quality and consequently Pukeko does not contain an economically producible column.

On the positive side, the “oil shows” encountered at Pukeko, which is located 70 kilometres to the south of Tui-Amokura-Pateke, confirm a wider potential for oil discoveries. Oil shows in this well are significant, demonstrating oil has been generated and expelled from source rocks in the area west of the Maui field. This provides support for the possibility of oil accumulations elsewhere in the West Maui permit (PEP 38460) and the neighbouring permit, PEP 38483. These two joint ventures are now investigating options for acquisition of 3D seismic data to define better some of the prospects already identified.

**Kupe Gas and Oil Development****Gas demand underpins development**

The Kupe Field is now poised to play a major role in helping New Zealand meet its increasing gas needs. With the downwards revision of Maui gas reserves and the rapid increase in domestic gas demand to power electricity generation, the development of the Kupe field is economical and vital in meeting New Zealand’s energy needs.

Initial engineering design for the development has commenced.

Gas prices in New Zealand have more than doubled in the past 18 months. NZOG is negotiating for the sale of its share of gas under a long-term contract in order to facilitate the financing of its share of the development, subject to satisfaction on the final development plan and budgeted cost.

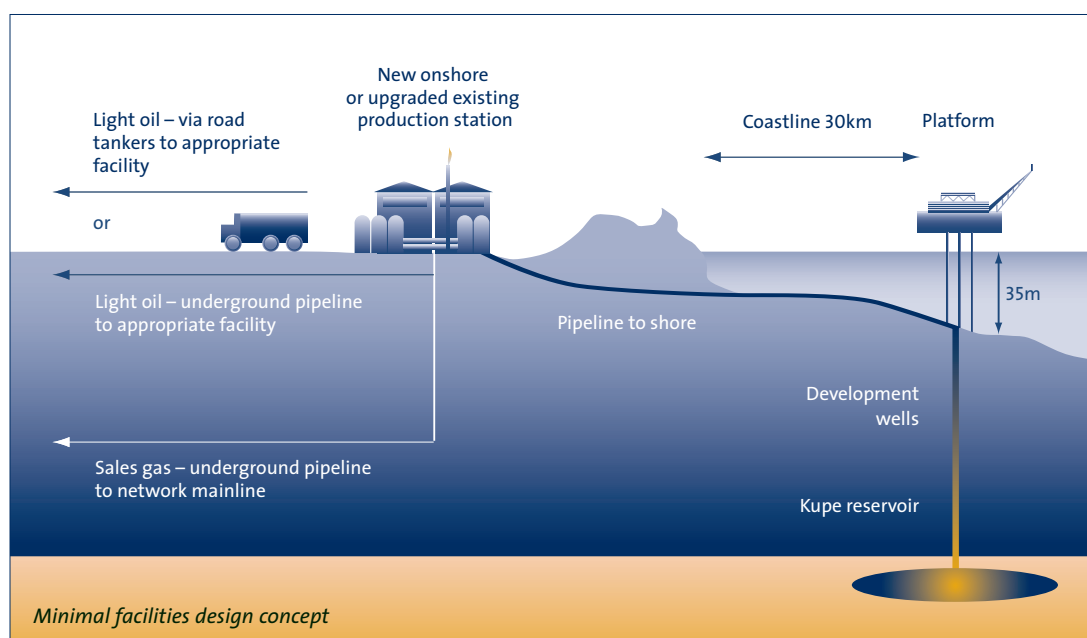
**Minimal facilities design**

At this stage of the process, the Kupe development is estimated to cost approximately NZ\$250 million, comprising a normally unmanned offshore platform, offshore pipeline and drilling of three initial production wells. Additional investment would be involved if the Kupe joint venture constructs its own onshore production station, rather than using existing third party facilities. Development costs are being refined through the current engineering study, and a tendering process for major offshore works is to be completed over the next six months.

The target dates are for a formal development decision by the Kupe joint venture in June 2005 and commencement of production by mid 2007. Within the Kupe licence there are a number of prospects which offer opportunities to boost reserves and production. Accordingly, the offshore platform is being designed to allow tie-in of at least two future satellite fields.

**Financial Impact**

The Kupe project will produce gas, and also oil, which is a valuable component. Gas production is scheduled at







*Unmanned offshore production platform*

20 petajoules of gas per annum (NZOG share: 3 petajoules per annum). In the first year of production, 1.7 million barrels of light oil (NZOG share: 255,000 barrels) will be produced (gradually declining thereafter). NZOG's share of Kupe oil reserves (proved and probable) is 2.4 million barrels.

Kupe will be a cornerstone project for the company. NZOG anticipates substantial cash flows from this investment.

## Pike River Coal Development

### Ministerial approval for mine

The Pike River Coal Mine is set to become New Zealand's second largest export coal mine once the access and environmental approvals (which are in the final stages of negotiation) have been finalised.

In March 2004, the Minister of Conservation granted conditional approval for access to Pike River Coal Company Limited's (PRCC) metallurgical coking coal deposit through land administered by his Department ("DoC"). The resource consent appeals were resolved during August 2004 and the detailed terms and conditions of an access agreement with DoC is in the final stages of negotiation.

Another recent important step towards development was obtaining letters of intent from major customers for 1.5 million tonnes of coal per year.

The Pike River coal mine has been designed to have minimal environmental impact, requiring just 10 hectares of conservation land for access. The mine is expected to provide a net conservation gain through a blue duck enhancement programme and extensive pest control measures in an area suffering heavily from predation by stoats and other pests.

### Coal sales and higher prices

Demand for the high quality hard coking coal to be produced from the Pike River mine is strong. Since May 2004 steel mills in South-east Asia and Brazil have issued long term (up to 5 year) letters of intent to purchase one and a half million tonnes of Pike river coal annually, at prices yet to be negotiated. Coal market observers are forecasting that 2005 will see another substantial rise in annual contract prices for hard coking coal, to in excess of US\$80 per tonne. In New Zealand currency such a rise would represent a 30% increase in coal prices since 2003.

### Development planning and financing

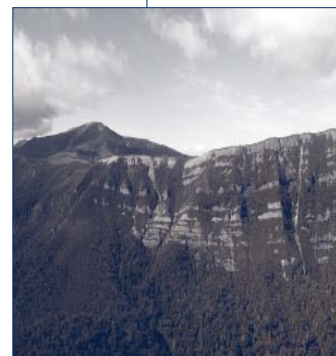
Development planning, including optimisation of coal extraction, construction of the access road to the mine portal and evaluation of the coal transport route, is underway. PRCC's preferred transport route is by truck to the Port of Greymouth on the West Coast and then shipping to Shakespeare Bay at Picton, where a new coal export facility would need to be constructed. The merits of financing the mine development through project equity and loans from key customers are being assessed, and compared to other financing options such as a public issue.

PRCC is aiming to make a formal development decision in the next six months, with construction of access and development of the mine expected to take a further 12 months.

### Financial Impact

Based on the current outlook for coking coal the Pike River mine is estimated to generate annual sales in excess of NZ\$90 million, equivalent to more than NZ\$1.5 billion over the mine life, which should run in excess of 15 years. Further information on the project's expected financial returns will be provided to investors in the next few months.





*The West Coast location of the Pike River Coal Field*

## Sale of Ngatoro Field

### Profit of \$5.2 million

NZOG sold its 35.4% minority stake in the Ngatoro project in February 2004 for approximately NZ\$8.3 million. The decision to sell was influenced by the Ngatoro field entering a less profitable secondary recovery phase to restore reservoir pressure, the field requiring further significant investment and because of fundamental differences amongst the joint venturers over the last two years. The sale of Ngatoro realised a profit of NZ\$5.2 million for the company and provided funds to advance major development projects.

## Gamma and X prospects

### West Kupe prospects defined

NZOG was awarded a new offshore licence, PEP 38484, covering 1682km<sup>2</sup> in the area west of the Kupe permit, in April 2004.

A 2D seismic survey in May 2004 acquired additional data over the Gamma and X prospects. NZOG anticipates that the upgraded seismic picture of these prospects resulting from analysis of the data, could lead to the drilling of an exploration well in the first half of 2005. These prospects are Miocene structural and stratigraphic targets in the area immediately west of the Kupe Field.

## Mangatoa prospect

### A major gas prospect

Imaging of the Mangatoa prospect has been improved by detailed analysis of the seismic velocities used for estimating the depth structure. As a result, the estimated potential for Mangatoa has increased to more than two trillion cubic feet of gas, with associated condensate. Studies have shown that initial production rates of approximately 15 million cubic feet per day may reasonably be expected to provide a recovery in excess of 30 billion cubic feet from each production well.

The offshore Mangatoa prospect can be reached using deviated drilling from onshore and preliminary well design has been completed. Permitting of the onshore drilling location is under way. The Mangatoa joint venture is working to introduce a new participant to fund drilling of a well which would cost approximately NZ\$23 million.

## Felix prospect

### An offshore prospect

The Felix prospect is 60km northeast of the Pohokura field and is a large closure within the Kapuni C Sands. These are highly productive sands that provide reservoir in both the Maui and Pohokura fields.

The C Sands at Felix (at 2,700 metres) are some 1000m shallower than at Pohokura. Therefore, Felix is viewed as an oil prospect, possibly with a substantial gas "cap".

Felix is in about 15m of water within 5km of the shore and could be drilled with one of the jack-up rigs likely to be in the area in 2005.

## Onshore Taranaki

### New permit – PEP 38768

Whilst NZOG's main focus is the offshore Taranaki basin where potential for large discoveries exists, the company remains alert to onshore opportunities and acquired a new permit (PEP 38768) in February 2004. This permit covers a 196km<sup>2</sup> area and is located 10 kms east of the McKee oil field.

Reprocessing of existing seismic data is being conducted to assess various plays identified in the area, some related to prospects created by 'overthrusting' along the Taranaki Fault, others to various sands within the Miocene sequence.

## Financial Information

NZOG generated a net surplus of \$7.9 million for the year ended 30 June 2004. Cash sales of two permit interests for \$17.5 million, contributed \$12.4 million to the result. Exploration costs of \$3.8 million were written off.

Ngatoro field revenue in the 8 month period to disposal February 2004, was \$1.1 million (\$4.3 million in the full year ended 30 June 2003).

Some exploration well costs (Tuihu and Pukeko) were charged against profits. The Pukeko-1 well drilled in May 2004 encountered extensive oil shows, however the reservoir quality was not of sufficient quality to be commercial. Costs of the Amokura oil discovery well, incurred during the year ended 30 June 2004, were capitalised.

The company is now focussing on development of the Kupe gas/oil field and the Pike River coking coal mine as substantial sources of revenue. The Tui, Amokura and Pateke oil discoveries represent a further possible significant development.

## Staffing and Management

During the 2004 calendar year the company decided to establish its registered and principal offices in Wellington and accordingly terminated its agreement to share staff and facilities with Pan Pacific Petroleum NL (which was part of the NZOG group at the time that arrangement was entered into) via partly-owned subsidiary Pafule Pty Ltd. Certain existing executives (Messrs R A Radford-CEO and G A Ward-General Manager) and contractors are now directly employed by the company, while the positions of others (including Dr E R Matthews-Exploration Manager) became redundant. New staff and consultants have been or are being recruited to meet the NZOG group's needs in various areas, including petroleum exploration and the development of the Pike River coal mine.

## Reserves Statement

### Oil and Gas Reserves

#### a) Oil & Gas Reserves and Resources

	Crude Oil & Natural Gas Liquids (Million Barrels)		Natural Gas (Billion Cubic Feet)	
	2004	2003	2004	2003
<b>Undeveloped - Kupe</b>				
Ownership interest	15%	19%	15%	19%
Proven and probable reserves	4.6	5.8	39.6	50.1
<b>Developed - Ngatoro</b>				
Ownership interest	0%	35.4%	0%	35.4%
Proven and probable reserves	-	0.2	-	0.4

#### b) Coal Reserves

	Coal (Million Tonnes)	
	2004	2003
<b>Undeveloped - Pike River</b>		
Proved and probable	15.5	15.5

### Notes:

- (i) Proven oil and gas reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically producible.
- (ii) The group's interests in undeveloped proven and probable oil and gas reserves are in the Kupe field (offshore South Taranaki) and include natural gas liquids (LPGs). On 3 February 2004 the group sold a 4% interest in Kupe. The group's 2003 interest in developed proven and probable oil and gas reserves were in the Ngatoro oil field (onshore Taranaki). On 11 February 2004 the group sold its entire 35.43% interest in Ngatoro.
- (iii) Coal reserves are the estimated quantities of coal which are expected with reasonable certainty to be recoverable based on a financial study (March 2002) and under existing economic and operating conditions. Proved reserves have a higher degree of confidence of economic extraction and have closer drilling or 'observation points' (0.5 km to 1 km apart) than probable reserves which are less well defined and have less dense drilling or observation points (1 km to 2 km apart).
- (iv) Oil, gas and coal reserves are reported in accordance with Section 10.11 and Section 10.12 respectively, of the New Zealand Exchange Listing Rules. Oil and gas reserves accurately reflect information compiled by the company's Exploration Manager, Dr Eric Matthews, PhD, MSc, BSc. Coal reserves accurately reflect information compiled by an engineering consultant, Mr Graeme Duncan, BE Mining (Hon), M. Aus IMM.
- (v) All reserves are unaudited.

## Hydrocarbon Statement

All references in the annual report relating to hydrocarbon reserves accurately reflect information compiled by the Exploration Manager, Dr E Matthews, a member of the American Association of Petroleum Geologists.

## Coal Reserves Statement

Pike River coal reserves accurately reflect information compiled by Mr G Duncan (Minarco Asia Pacific Pty Limited), a member of the Australasian Institute of Mining and Metallurgy.

## NZOG Group

Within this annual report reference to NZOG, NZ Oil & Gas and the company are to be read as inclusive of the subsidiary companies within the consolidated group.

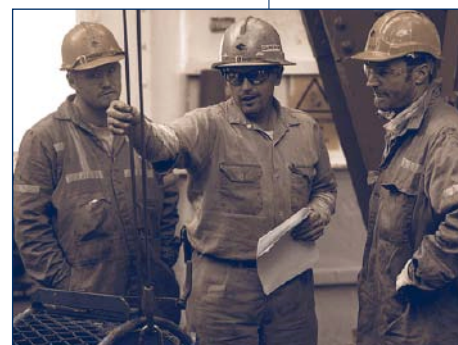
## Energy Values

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.





## DIRECTORS AND MANAGEMENT

## Directors

**Mr R A Radford**

Tony Radford, ACA (NZ) has spent most of his career in petroleum and mining companies, including senior financial positions in the steel, minerals and oil and gas industries. Tony is a founding director of New Zealand Oil & Gas, of which he is Chairman and CEO.

**Professor R Meyer**

Ray Meyer obtained his BE from the University of New Zealand (Canterbury) and his PhD from the University of Manchester. A Distinguished Fellow of the Institute of Professional Engineers New Zealand, his career includes senior positions in Canada and Chair of Mechanical Engineering and Dean of Engineering at the University of Auckland. He was a director of ECNZ, Transpower and Watercare Services Limited and is currently a director of Auckland UniServices Limited and of Wellington Drive Technologies Limited. Ray joined the NZOG board in 2000 as Deputy Chairman. He also heads the board's audit and remuneration committees.

**Mr P G Foley**

Originally from Auckland, Paul Foley is a senior corporate/commercial lawyer based in Wellington, where he is a partner in Minter Ellison Rudd Watts. Paul acts for listed companies operating in the petroleum exploration and minerals fields. He became a director of NZOG in 2000.

**Mr S J Rawson**

Steve Rawson is originally from Wellington. His career started in petroleum geophysics, later followed by managerial positions with Fletcher Energy in trading, logistics and supply. Steve is General Manager Retail Operations and Customer Support for Mighty River Power. He joined the board of NZOG in 2000.

**Mr D R Scoffham**

David Scoffham joined the board of NZOG in June 2003. David recently took up residence in New Zealand following over 30 years international experience in the oil industry. This included experience in Egypt, Gabon, Oman and Venezuela with Shell, and in exploration management with UK independent Enterprise Oil plc. He played a major role in several important oilfield discoveries in North Western Europe which resulted in the major expansion of Enterprise Oil. David is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics).

## Management

**Mr R A Radford (chief executive)**

In addition to holding the position of chairman, Tony Radford is the chief executive of the company.

**Mr G A Ward (general manager)**

Gordon Ward holds a Bachelor of Business Studies from Massey University (Palmerston North), and obtained his CA qualification whilst a senior auditor with PriceWaterhouseCoopers. He moved into the petroleum sector on joining NZOG's Wellington office in 1987. Gordon is also manager of the company's Pike River project and was appointed NZOG's general manager in February 2004.



# financial statements

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## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2004

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Total revenue	2(a)	14,461	4,659	966	378
Operating surplus/(deficit) before taxation	2(b)	7,772	(701)	(3,221)	(1,304)
Taxation benefit/(expense)	17	34	(64)	-	-
<b>Net surplus/(deficit) for the year</b>		<b>7,806</b>	<b>(765)</b>	<b>(3,221)</b>	<b>(1,304)</b>
Net surplus/(deficit) comprises:					
Parent interest		7,941	(756)		
Minority interest	3	(135)	(9)		
		<b>7,806</b>	<b>(765)</b>		

## STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2004

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Equity at beginning of year</b>		<b>41,302</b>	<b>36,244</b>	<b>5,089</b>	<b>570</b>
Total recognised revenue and expenses					
Net surplus/(deficit) for the year		7,941	(756)	(3,221)	(1,304)
Movement in minority interest during the year		(135)	(9)		
<b>Contributions from owners</b>					
Shares issued in subsidiary company to minority interest		440	-	-	-
Shares issued pursuant to share purchase plan		-	4,380	-	4,380
Share options issued		-	1,443	-	1,443
2005 Share options exercised	4(ii)	8	-	8	-
<b>Equity at end of year</b>		<b>49,556</b>	<b>41,302</b>	<b>1,876</b>	<b>5,089</b>



## STATEMENT OF FINANCIAL POSITION

as at 30 June 2004

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Current Assets</b>					
Short term securities and cash deposits	5	17,695	7,904	16,459	6,823
Receivables	6	635	1,484	276	403
Inventories	7	100	710	-	-
<b>Total Current Assets</b>		<b>18,430</b>	<b>10,098</b>	<b>16,735</b>	<b>7,226</b>
<b>Non-Current Assets</b>					
Receivables	6	-	-	419	803
Investment in associate company	9	2,719	2,719	2,719	2,719
Investment in subsidiaries	9	-	-	64,699	67,193
Investments in listed resource companies	8	1,463	962	541	40
Fixed assets	10	188	327	69	-
Petroleum and coal interests	12	29,308	31,548	-	-
Other	13	188	154	-	-
<b>Total Non-Current Assets</b>		<b>33,866</b>	<b>35,710</b>	<b>68,447</b>	<b>70,755</b>
<b>Total Assets</b>		<b>52,296</b>	<b>45,808</b>	<b>85,182</b>	<b>77,981</b>
<b>Current Liabilities</b>					
Creditors	14	2,352	3,715	367	262
Provisions	15	346	166	92	38
<b>Total Current Liabilities</b>		<b>2,698</b>	<b>3,881</b>	<b>459</b>	<b>300</b>
<b>Non-Current Liabilities</b>	15	42	625	82,847	72,592
<b>Total Liabilities</b>		<b>2,740</b>	<b>4,506</b>	<b>83,306</b>	<b>72,892</b>
<b>NET ASSETS</b>		<b>49,556</b>	<b>41,302</b>	<b>1,876</b>	<b>5,089</b>
<b>Equity</b>					
Attributable to shareholders of the company	4	46,266	38,317	1,876	5,089
Attributable to minority shareholders of the group	3	3,290	2,985	-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>49,556</b>	<b>41,302</b>	<b>1,876</b>	<b>5,089</b>

On behalf of the Board of Directors



R F Meyer  
Director  
26 August 2004



R A Radford  
Director  
26 August 2004

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2004

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Cash Flows From Operating Activities</b>				
<i>Cash was received from:</i>				
Interest received	325	256	389	270
Petroleum sales	1,467	4,392	-	-
	1,792	4,648	389	270
<i>Cash was paid for:</i>				
Production expenses	(752)	(1,849)	-	-
Other payments to suppliers and employees	(2,676)	(1,889)	(2,027)	(1,442)
	(3,428)	(3,738)	(2,027)	(1,442)
Net cash flows from operating activities	(1,636)	910	(1,638)	(1,172)
<b>Cash Flows From Investing Activities</b>				
<i>Cash was received from:</i>				
Sale of licence interests	17,535	-	-	-
Sale of fixed assets	-	5	-	-
Sale of investment in listed resource company	-	532	-	532
	17,535	537	-	532
<i>Cash was paid for:</i>				
Advances to subsidiary and associate companies	-	16	-	(2,888)
Petroleum and coal expenditures	(6,524)	(6,386)	-	-
Purchase of other fixed assets	(12)	(28)	(9)	-
Purchase of shares in listed resource company	(501)	-	(501)	-
	(7,037)	(6,398)	(510)	(2,888)
Net cash flows from investing activities	10,498	(5,861)	(510)	(2,356)
<b>Cash Flows From Financing Activities</b>				
<i>Cash was received from:</i>				
Issue of shares pursuant to share purchase plan	-	4,380	-	4,380
Issue of options	-	1,443	-	1,443
Issue of shares in partly owned subsidiary	438	-	-	-
Issue of shares from exercise of options	8	-	8	-
Proceeds from repayments of loans	172	-	25,573	-
Security deposit	19	-	-	-
Other	54	-	54	-
	691	5,823	25,635	5,823
<i>Cash was paid for:</i>				
Repayment of borrowings	(360)	-	(14,449)	-
Security deposit	-	(15)	-	-
	(360)	(15)	(14,449)	-
Net cash flows from financing activities	331	5,808	11,186	5,823

The notes on pages 18 to 31 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS (continued)

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Net increase in cash		9,193	857	9,038	2,295
Cash at beginning of year		7,904	7,162	6,823	4,642
Effect of exchange rate changes on cash		598	(115)	598	(114)
<b>CASH AT END OF YEAR</b>		<b>17,695</b>	<b>7,904</b>	<b>16,459</b>	<b>6,823</b>
Made up as follows:					
Short term securities and cash deposits	5	17,695	7,904	16,459	6,823

RECONCILIATION OF NET SURPLUS/(DEFICIT)  
FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Net surplus/(deficit) after taxation</b>	<b>7,941</b>	<b>(765)</b>	<b>(3,221)</b>	<b>(1,304)</b>
Adjust for non-cash items in operating surplus/(deficit):				
Amortisation of development expenditure	-	526	-	-
Provision against investment in subsidiaries	-	-	2,074	223
Depreciation	54	105	-	-
Future income tax benefit	-	49	-	-
Provision for income tax	(59)	(59)	-	1
Loss on sale of plant and equipment	-	5	-	-
Write-off of exploration, development, petroleum and coal expenditure	3,917	1,577	-	-
(Gain) on sale of investment in listed resource company	-	(22)	-	(22)
Movement in minority interest	(133)	-	-	-
Changes in assets and liabilities:				
Decrease/(increase) in debtors	749	(285)	60	23
(Decrease)/increase in creditors	(645)	(166)	47	(207)
Increase/(decrease) in provisions	108	(170)	-	-
Items included in other cash flow categories:				
Exchange (gains)/losses	(598)	115	(598)	114
Sale of licence interests	(12,970)	-	-	-
<b>Net cash flows from operating activities</b>	<b>(1,636)</b>	<b>910</b>	<b>(1,638)</b>	<b>(1,172)</b>

The notes on pages 18 to 31 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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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	5-6 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.

**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**

- Cash includes cash on hand and at bank, short term deposits, bank bills and government stock less any overdraft.
- Operating cash flows represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.
- 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.
- 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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 year are reclassified to facilitate comparison.

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

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

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>(a) Crediting as income:</b>				
<b>Sales revenue</b>				
Petroleum sales	1,113	4,310	-	-
<b>Other revenue</b>				
Sale of licence and royalty rights	12,409	-	-	-
Interest received	335	327	366	356
Gain on sale of investment in a listed resource company	-	22	-	22
Other (including unrealised exchange gains)	604	-	600	-
<b>Total revenue</b>	14,461	4,659	966	378

Petroleum sales revenue of \$1,113,000 (2003: \$4,310,000) represents the group's share of revenue from the Ngatoro oil and gas field (onshore Taranaki). The group's interest in Ngatoro (PMP 38148) was sold on 11 February 2004.

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>(b) Charging as expenses:</b>				
Amortisation of development expenditure	126	526	-	-
Directors' fees	113	91	113	91
Exchange losses	-	142	-	114
Fees paid to parent company auditors	68	77	66	77
Fees paid to parent company auditors for other services	41	25	41	25
Fixed asset depreciation	54	105	-	-
Operating expenditure	2,496	2,857	1,894	1,153
Petroleum and coal exploration expenditure written off or down to valuation	3,791	1,577	-	-
Provision against investment in subsidiaries	-	-	2,074	223

**3 MINORITY INTEREST**

The amount attributable to minority interest in the statement of financial position at 30 June 2004 represents a 28.8% (2003: 28.3%) minority interest in Pike River Coal Company Limited ('PRCC') and a 40% (2003: 40%) minority interest in Pafule Pty Limited ('Pafule').



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 4 SHAREHOLDERS' EQUITY

		CONSOLIDATED				PARENT COMPANY			
	Note	2004 Number of Shares 000s	2004 \$000	2003 Number of Shares 000s	2003 \$000	2004 Number of Shares 000s	2004 \$000	2003 Number of Shares 000s	2003 \$000
<b>Reported paid in share capital</b>									
Paid in share capital – opening balance		133,951	58,556	121,255	54,176	133,951	58,556	121,255	54,176
Shares issued pursuant to share purchase plan/private placement	(i)	-	-	12,696	4,380	-	-	12,696	4,380
Options exercised	(ii)	13	8	-	-	13	8	-	-
		133,964	58,564	133,951	58,556	133,964	58,564	133,951	58,556
Options issued		-	1,443	-	1,443	-	1,443	-	1,443
Treasury share elimination		(5,865)	(2,794)	(5,864)	(2,794)	(5,865)	(2,794)	(5,864)	(2,794)
Paid in share capital – closing balance		128,099	57,213	128,087	57,205	128,099	57,213	128,087	57,205
<b>Reserves</b>									
Retained reserves/(deficit) brought forward		(21,779)		(21,023)		(58,581)		(57,277)	
Net surplus/(deficit) for the year		7,941		(756)		(3,221)		(1,304)	
Retained reserves/(deficit) carried forward		(13,838)		(21,779)		(61,802)		(58,581)	
<b>Share revaluation reserve</b>									
Opening and closing balance		-		-		6,465		6,465	
<b>Asset revaluation reserve</b>									
Opening and closing balance		2,891		2,891		-		-	
<b>Total shareholders' equity</b>		46,266		38,317		1,876		5,089	

## Notes:

- (i) During the 2003 financial year, pursuant to a share purchase plan and a private placement, the company issued 12,695,866 ordinary shares at NZ\$34.5 cents per share for New Zealand shareholders and A32.1 cents for Australian shareholders.
- (ii) During the year 12,906 of the 2005 options were exercised by option holders resulting in the issue of 12,906 new ordinary shares at a price of \$0.60 each, representing cash consideration of \$8,000. The remaining 72,164,846 options expire 30 June 2005.
- (iii) All shares issued are fully paid and rank equally with regard to the company's residual assets. Each issued share is entitled to one vote.

## 5 SHORT TERM SECURITIES AND CASH DEPOSITS

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Bank	1,298	2,102	613	1,020
Cash on deposit	16,397	5,802	15,846	5,803
	17,695	7,904	16,459	6,823

Included in cash on deposit are US dollar balances of US\$3,650,000; NZ\$5,705,000 (2003: US\$473,000; NZ\$972,000).

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 6 RECEIVABLES

	Note	CONSOLIDATED		PARENT COMPANY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Current receivables</b>					
Trade receivables	(i)	478	1,087	119	81
Interest receivable		7	75	7	106
Advances to associates		150	322	150	216
		635	1,484	276	403
<b>Non-current receivables</b>					
Advances to subsidiaries	(ii)	-	-	419	803

**Notes:**

(i) Trade receivables do not include any USD receivables (2003: unhedged US\$176,000, NZ\$302,000).

(ii) Inter-group advances between wholly owned subsidiaries and the parent are on interest free terms and no repayment terms have been arranged.

## 7 INVENTORIES

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Field operation consumables	100	442	-	-
Finished goods (oil stock)	-	268	-	-
	100	710	-	-

## 8 INVESTMENTS IN RESOURCE COMPANIES

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Non-current</b>				
Shares in a listed company at book value	1,463	962	541	40
Market value based on listed share price	2,117	1,220	578	60

## 9 INVESTMENTS IN SUBSIDIARY AND ASSOCIATE COMPANIES

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Investment in subsidiaries	-	-	75,300	75,719
Provision for diminution	-	-	(10,601)	(8,526)
	-	-	64,699	67,193
Investment in associate - unlisted shares	2,719	2,719	2,719	2,719

**Notes:**

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 10 FIXED ASSETS

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Production assets</b>					
Cost		-	1,410	-	-
Accumulated depreciation		-	(1,237)	-	-
		-	173	-	-
<b>Other fixed assets</b>					
Cost	(i)	520	585	69	-
Accumulated depreciation		(332)	(431)	-	-
		188	154	69	-
<b>Book value of fixed assets</b>		188	327	69	-

**Note:**

- (i) Other fixed assets includes land of \$65,000

## 11 JOINT VENTURES

NZOG group interests held at 30 June 2004, in significant unincorporated joint ventures established to explore, develop and produce petroleum:

			CONSOLIDATED		PARENT COMPANY	
			Percentage Interest		Percentage Interest	
Licence	Prospect name	Note	2004 %	2003 %	2004 %	2003 %
PML 38146	Kupe	(i)	15.0	19.0	-	-
PMP 38148	Ngatoro	(ii)	-	35.4	-	-
PEP 38460	West Maui – Tui, Amokura, Pateke	(iii)	12.5	20.0	-	-
PEP 38472	West Kupe	(iv)	-	50.0	-	-
PEP 38484	West Kupe	(iv)	50.0	-	-	-
PEP 38478	Mangatōa		50.0	50.0	-	-
PEP 38483	West Maui Deep Block	(v)	15.0	-	-	-
PEP 38718	Tuihu	(vi)	25.0	20.0	-	-
PEP 38728	Makino	(vii)	56.0	8.0	-	-
PEP 38729	Felix		75.0	75.0	-	-
PEP 38754		(viii)	-	-	-	-
PEP 38755		(viii)	-	-	-	-

The financial statements of all joint ventures are unaudited.

**Notes:**

- (i) The group sold a 4% interest in PML 38146 (Kupe) on 3 February 2004.
- (ii) The group sold its entire interest in PMP 38148 (Ngatoro field) on 11 February 2004.
- (iii) The group farmed out a 7.5% interest in PEP 38460 (West Maui) on 30 October 2003 in exchange for a carry of up to \$5.3 million in exploration expenditure.
- (iv) A 50% participating interest in PEP 38472 (West Kupe) was relinquished on 12 August 2003. A permit (PEP 38484) over some of the main exploration prospects contained in the former PEP 38472 was granted to the group after balance date.
- (v) A 15% participating interest in PEP 38483 was acquired in 15 December 2003.
- (vi) On 11 June 2004 a further 5% interest in PEP 38718 was acquired due to the withdrawal of other participants.
- (vii) PEP 38728 (Makino) is in the process of being surrendered. The percentage interest increased due to withdrawal of other participants.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

(viii) The group's interest in permits PEP 38754 and PEP 38755 were surrendered on 28 July 2003.

The contribution made by joint ventures to group results was to increase revenues by \$1,113,000 (2003: \$4,310,000) and expenses by \$6,888,000 (2003: \$2,862,000).

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

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Current Assets</b>				
Short term securities and cash deposits	1,096	541	-	-
Trade receivables	102	31	-	-
Finished goods (oil stock)	-	206	-	-
Field operation consumables	100	504	-	-
<b>Non-Current Assets</b>				
Petroleum interests	17,959	20,734	-	-
<b>Total Assets</b>	<b>19,257</b>	<b>22,016</b>	<b>-</b>	<b>-</b>
<b>Current Liabilities</b>				
Creditors and borrowings	1,611	2,027	-	-
<b>Non-Current Liabilities</b>				
Provisions	-	562	-	-
<b>Total Liabilities</b>	<b>1,611</b>	<b>2,589</b>	<b>-</b>	<b>-</b>
<b>Net Assets held in Joint Ventures</b>	<b>17,646</b>	<b>19,427</b>	<b>-</b>	<b>-</b>

## 12 PETROLEUM AND COAL INTERESTS

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Petroleum production – Ngatoro PML 38148</b>				
Accumulated expenditure brought forward	1,475	2,159	-	-
Charge/(release) to operating surplus	(1,475)	(684)	-	-
Accumulated petroleum production expenditure carried forward	-	1,475	-	-
<b>Petroleum and coal exploration and evaluation expenditure</b>				
Accumulated expenditure brought forward	30,073	25,901	-	-
Expenditure capitalised during the year:				
Petroleum mining licence – Kupe PML 38146 (i)	955	82	-	-
Petroleum exploration permits (ii)	4,570	4,684	-	-
Coal mining licence – Pike River MP 41453 (iii)	535	984	-	-
Charge/(release) to operating surplus	(6,825)	(1,578)	-	-
Total accumulated exploration and evaluation expenditure carried forward	29,308	30,073	-	-
<b>Total accumulated expenditure</b>	<b>29,308</b>	<b>31,548</b>	<b>-</b>	<b>-</b>

**Notes:**

- (i) Costs are carried forward in respect of the Kupe project (PML 38146). The actual amount recoverable is dependent upon a number of factors which are uncertain or tentative at balance date and which may be subject to change. Such factors include the level of petroleum reserves, estimates of future oil and gas sale prices, operating costs and capital expenditures and of tax losses and legislative changes. The directors



## NOTES TO THE FINANCIAL STATEMENTS (Continued)

believe that accumulated petroleum exploration and evaluation expenditure is recoverable through the Kupe project proceeding to development.

- (ii) Expenditure in relation to petroleum exploration permits is net of amounts written off. Petroleum expenditure includes amounts relating to PEP 38460 (West Maui), which contains the successful Tui, Amokura and Pateke wells (refer note 24). A provision of \$1 million in respect of the Pukeko well was charged against the operating surplus during the financial year.
- (iii) Coal exploration and evaluation expenditure relates to partly owned subsidiary 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 year ended 30 June 2004. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development. Conditional approval for access to Department of Conservation land was granted by the Minister of Conservation in March 2004 and all resource consent appeals resolved in August 2004.

## 13 OTHER NON-CURRENT ASSETS

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Deferred tax asset	17	100	68	-	-
Taxation receivable		23	-	-	-
Security deposits	21	65	86	-	-
		188	154	-	-

## Notes:

- (i) The future income tax benefit arises solely from consolidation of Pafule.
- (ii) Security deposits are held by government agencies subject to licensed work programme commitments being met.

## 14 CREDITORS

		CONSOLIDATED		PARENT COMPANY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
Trade creditors		2,352	3,355	367	262
Owing to associate companies		-	360	-	-
		2,352	3,715	367	262

## 15 PROVISIONS AND NON-CURRENT LIABILITIES

		CONSOLIDATED		PARENT COMPANY	
	Note	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>Current</b>					
Employee leave entitlements	(ii)	254	127	-	-
Other		92	39	92	38
		346	166	92	38
<b>Non-Current</b>					
Restoration	(i)	-	562	-	-
Employee leave entitlements	(ii)	42	63	-	-
Advances from wholly owned subsidiary companies to parent		-	-	82,847	72,592
		42	625	82,847	72,592

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## Notes:

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
(i) Movements in restoration provision				
Opening balance	562	562	-	-
Charge/(release) to operating surplus	(562)	-	-	-
Closing balance	-	562	-	-

The provision for restoration related to Ngatoro production and the group's commitment to rehabilitate the site. The sale of the group's interest in Ngatoro in February 2004 has resulted in the provision being released.

(ii) Movements in employee provision				
Opening balance	187	358	-	-
Charge/(release) to operating surplus	109	(171)	-	-
Closing balance	296	187	-	-

The provision for employee entitlements relates to employee benefits such as accrued annual leave, long service leave, retirement and redundancy provisions.

## 16 FINANCIAL INSTRUMENTS

## Foreign Exchange Risk

The group operates United States dollar bank accounts for oil sales and certain permit interest sales proceeds.

## 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 debtors 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 30 June are as follows:

	Carrying Value 2004 \$000	Fair Value 2004 \$000	Carrying Value 2003 \$000	Fair Value 2003 \$000
<b>Consolidated</b>				
Investments in resource companies	1,463	2,117	962	1,220
Security deposits	65	65	86	86
<b>Parent Company</b>				
Investments in resource companies	541	578	40	60

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**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
<b>Short Term Securities and Cash Deposits:</b>		
New Zealand dollar bank and cash on deposit	At call	5.75%
United States dollar deposits	At call	1.20%
Security deposits	June 2005	5.00%

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 30 June 2004 of \$47,231,000 (2003: \$54,154,000). The net future income tax benefit of these tax losses is not included as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

	Note	CONSOLIDATED		PARENT COMPANY	
		2004 \$000	2003 \$000	2004 \$000	2003 \$000
<b>(b) Consolidated and Parent</b>					
<i>i) Income tax expense</i>					
Operating surplus/(deficit) before taxation		7,772	(701)	(3,221)	(1,304)
Income tax expense/(benefit) at 33%		2,565	(231)	(1,063)	(430)
Adjusted for tax effect of:					
Permanent differences - New Zealand		(2,658)	247	(1,063)	430
		(93)	16	-	-
<b>Consolidated from Pafule:</b>					
Net timing differences					
Permanent differences		1	1		
Difference in foreign tax rates		8	(2)		
Income tax expense on operating surplus before tax items		(84)	15		
Tax losses not brought to account		48	31		
Add/(less)					
Income tax under/(over) provided in prior year		2	18		
Income tax expense attributable to operating surplus/(deficit)		(34)	64		
<b>Future income tax benefit (consolidated from Pafule)</b>					
Opening balance		68	117		
Movement during the year		32	(49)		
Exchange movement during the year		-	-		
Closing balance		100	68		
<i>ii) Taxation losses not taken into account</i>					
Taxation losses not recognised in New Zealand	(i)	47,231	54,154	27,342	26,760

**Notes:**

- (i) The value of taxation losses not brought to account at 30 June 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 \$2,652,000 (2003: \$3,747,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

**18 RELATED PARTY DISCLOSURES**

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

Material transactions with related parties during the year are set out in Notes 6, 9, 11, 12, 19 and 22. There are no material balances due to or from related parties at 30 June 2004.

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

**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 as the plan company and trustee of the company's ESOP.

	NZOG SHARES		2005 OPTIONS	
	2004 Number 000	2003 Number 000	2004 Number 000	2003 Number 000
Allocated to employees:				
Options to purchase shares	5,148	5,278	-	-
Savings shares	763	764	-	-
Unallocated	1,143	1,200	1,355	1,355
	7,054	7,242	1,355	1,355
As a percentage of total reported capital	5.5%	5.7%		

**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 no less than market value at date of granting, to which an escalation factor generally applies.
- (iii) Shares in Pan Pacific Petroleum NL (PPP) numbering 5,084,000 were subject to employee option rights at 30 June 2004 (2003: 5,348,000). 1,342,593 unallocated PPP shares were held by the ESOP at 30 June 2004 (2003: 1,342,593).

**(b) Funding**

NZOG group holds redeemable preference shares in Nominees at a book value of \$2,719,000 (2003: \$2,719,000) 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 \$150,000 (2003: \$216,000) are due to the NZOG group from Nominees at a nil rate of interest and are repayable on demand. No demand for repayment of these advances has been made.

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

	CONSOLIDATED		PARENT COMPANY	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
Investment and advances:				
Investment in shares	2,719	2,719	2,719	2,719
Advances	150	216	150	216
	2,869	2,935	2,869	2,935



## 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 COSTS	
	2004 \$000	2003 \$000	2004 \$000	2003 \$000
<i>(i) Financial Position</i>				
<b>Equity</b>				
Share capital			3,750	3,750
Retained deficit			(1,313)	(1,328)
			2,437	2,422
<b>Assets</b>				
Securities:				
Allocated	4,264	2,236	1,924	2,061
Unallocated	1,248	538	722	664
	5,512	2,774	2,646	2,725
Less provision for diminution in value	-	-	(153)	(153)
	5,512	2,774	2,493	2,572
Bank	107	69	107	69
Debtors	-	8	-	8
	5,619	2,851	2,600	2,649
<b>Less Liabilities</b>				
Advances to NZOG	(150)	(216)	(150)	(216)
Creditors	(13)	(11)	(13)	(11)
	(163)	(227)	(163)	(227)
<b>Net Assets</b>	5,456	2,624	2,437	2,422
<i>(ii) Financial Performance</i>				
Interest Income			-	2
Accounting and legal fees			7	11
Loss/(gain) on sale of securities			(21)	-
Other			-	3

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 30 June 2004 the group has a capital expenditure commitment for \$40,000 for fitting out the new Wellington head office. (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.

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

- b) Security deposits of \$65,000 (2003: \$86,000) are held subject to licensed work programme commitments being met.
- c) The company has committed to drilling Pateke and Kiwi prospects at an estimated cost to the company of \$1,125,000.

## 22 SUBSIDIARY COMPANIES AND ASSOCIATES

**Wholly Owned Subsidiary Companies:**

ANZ Resources Pty Limited [see note (i)]

Australia and New Zealand Petroleum Limited

Australia &amp; New Zealand Petroleum Limited [see note (i)]

Curdridge Investments Limited (in liquidation)

Delta Petroleum Limited

National Petroleum Limited

Nephrite Enterprises Limited

NZOG Services Limited

Oil Holdings Limited

Petroleum Equities Limited

Petroleum Resources Limited

Resource Equities 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	71	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 Pty Limited is an administration services company. Pike River Coal Company is involved in the coal mining industry.

## 23 EARNINGS PER SHARE

	2004 Cents	2003 Cents
Basic earnings per share	5.9	(0.6)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	133,952,582	124,671,142
Diluted earnings per share	5.1	0.7
Weighted average number of ordinary shares and options outstanding during the year used in the calculation of diluted earnings per share	206,129,084	196,998,894

## 24 EVENTS SUBSEQUENT TO BALANCE DATE

In August 2004 down-hole logs in the Pateke-2 well indicated that there is a 13 metre oil column in the targeted Kapuni F sand. The oil-water contact in Pateke-2 is at the same depth as in the Amokura-1 well, implying that both wells have drilled into the same pool of oil. The size of the Amokura – Pateke discovery will be determined once post-drill studies have been completed which is currently expected to occur by the end of October 2004. At current oil prices, subject to confirmation by those studies, NZOG believes that the Amokura – Pateke discovery and the nearby Tui discovery may proceed to development and production over the next two years.



## AUDIT REPORT

To the shareholders of New Zealand Oil & Gas Limited

We have audited the financial statements on pages 14 to 31. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2004. This information is stated in accordance with the accounting policies set out on pages 18 to 21.

### Directors' responsibilities

The Directors are responsible for the preparation of financial statements which give a true and fair view of the financial position of the company and group as at 30 June 2004 and the results of their operations and cash flows for the year ended on that date.

### Auditors' 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

An audit includes examining, on a test basis, evidence relevant to the amounts and disclosures in the financial statements. It also includes assessing:

- the significant estimates and judgements made by the Directors in the preparation of the financial statements;
- whether the accounting policies are appropriate to the company's and group's circumstances, consistently applied and adequately disclosed.

We conducted our audit in accordance with New Zealand Auditing Standards. We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to obtain reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Our firm has also provided other services to the company and certain of its subsidiaries in relation to taxation and general accounting services. These matters have not impaired our independence as auditors of the company and group. The firm has no other relationship with, or interest in, the company or any of its subsidiaries.

### Unqualified opinion

We have obtained all the information and explanations we have required.

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 14 to 31:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2004 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 26 August 2004 and our unqualified opinion is expressed as at that date.

Wellington

## CORPORATE GOVERNANCE STATEMENT

The Board of New Zealand Oil & Gas Limited recognises the need for good corporate governance practice, and has reviewed the issues relevant to a company of its size and nature.

#### Board of Directors

The board is responsible for the overall corporate governance of the company including strategic direction, determination of policy, and approval of significant contracts, capital and operating costs, financial arrangements and investments. The board has a formal charter whereby it has set out its functions as follows.

The number of directors is specified in the constitution as a minimum of three up to a maximum of seven. At least two directors must be persons ordinarily resident in New Zealand. Each year one-third of directors, other than the managing director, must retire by rotation. If eligible each retiring director may offer themselves for re-election.

The Board currently has a policy of having five directors, with a majority of independent non-executive directors. The Board has determined that all of the existing non-executive directors are independent directors.

Director	Position	Expertise
Mr R A Radford ACA(NZ)	Executive chairman and managing director	Resource company management
Prof R F Meyer ONZM, BE, PhD, DistFIPENZ	Deputy chairman (non-executive)	Engineering and energy
Mr P G Foley BCA, LLB	(non-executive)	Legal
Mr S J Rawson BSc, MSc	(non-executive)	Energy
Mr D R Scoffham MA, MSc	(non-executive)	Worldwide oil & gas exploration

Each director has the right to seek independent professional advice in relation to matters arising in the conduct of his duties, at the company's expense, subject to prior approval of the chairman of the audit committee, which is not to be unreasonably withheld.

Because of the compact size of the board there is no formally constituted nomination committee. The board as a whole undertakes the responsibility for the appointment of directors, benefiting from the contribution of all its members in discussing the need for and identifying any new candidates for the board. The board aims to have a reasonable diversity of backgrounds and skills within its ranks as is relevant to the nature of the

company's activities, and from time to time reviews its committees and their charters.

The board evaluates its effectiveness as a whole and the performance and contributions of its individuals and its committees as to attendance, preparedness, participation, and candour, on an annual basis. The board has regular meetings, scheduled on a monthly basis, and holds other meetings as required.

Mr Radford is a founding executive director of the company. The board considers that Mr Radford's responsibilities as chief executive are fully compatible with leadership of the board and facilitation of the effective contributions of all directors and that the company benefits from Mr Radford's experience in these roles. The board has elected a deputy chairman, Prof R F Meyer, who also chairs the remuneration and audit committees of the board, thus ensuring a spread of key responsibilities. The chief executive is not a member of those committees.

#### Responsibilities of the Board

The board operates under the powers provided in the company's constitution, the Companies Act, and generally by law.

Specific responsibilities of the board include:

- approving corporate strategy and performance objectives
- establishing policies appropriate for the company
- oversight of the company, including its control and accountability systems
- approving major investments and monitoring the return of those investments
- evaluating the performance of the chief executive
- setting broad remuneration policy including approving allocations under the company's employee share ownership plan
- reviewing senior management's performance, implementation of strategy and ensuring appropriate resources are available
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct and legal compliance
- approving and monitoring financial and other reporting
- ensuring that the company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the company's prospects
- overall corporate governance of the consolidated entity.



Responsibility for the conduct of the company's business is delegated to management.

The board has delegated limits of authority which define matters delegated to management and those requiring board approval.

The board has overall responsibility for the company's system of risk management and internal control and has established procedures designed to provide effective control within the management and reporting structure. Management representations with respect to half-year and annual financial reporting provide accountability on disclosures and financial results.

The board has established several formal policies for management, which include:

- securities trading policy
- funds investment policy
- health, safety and environment policy.

These policies are reviewed on a regular basis. The board may establish other policies and practices to ensure it fulfils its functions and remains an effective decision making body.

#### **Board Committees**

The board has two formally constituted committees to provide specialist assistance with defined aspects of governance; the audit committee and the remuneration committee. Each committee is comprised of three non-executive directors and has a written charter setting out its respective roles and responsibilities.

The audit committee is required to contain one member with an accounting or financial background. The board has determined that Mr P G Foley has the requisite financial background for this requirement.

The members of the audit committee are Prof R F Meyer (chairman), Mr D R Scoffham and Mr P G Foley. The committee is responsible to the board for overseeing the financial control, financial reporting and audit practices of the company. Meetings are held at least twice a year, and at the discretion of the committee, the external auditors, the chief executive, and other senior executives attend these meetings.

The members of the remuneration committee are Prof R F Meyer (chairman), Mr P G Foley, and Mr S J Rawson. Meetings are held at least twice a year. The committee is responsible to the board for recommending the remuneration policies and packages for the chief executive and senior executives, including allocations under the employee share ownership plan

and amendments to plan rules. The committee operates independently of management.

The audit committee and remuneration committee charters setting out roles and responsibilities are available on the company's website at [www.nzog.net](http://www.nzog.net).

#### **Shareholder Reporting**

The company complies with the continuous disclosure and other listing requirements of the NZX and ASX relating to shareholder reporting. The company provides security holders with interim and annual reports, which are also posted on the company's website. Shareholders and interested parties can subscribe to [enquiries@nzog.net](mailto:enquiries@nzog.net) to receive the company's market announcements by email.

#### **Conduct**

Compliance with legislative requirements and acting with a high level of integrity has always been expected of all directors and employees. The company has formalised its policy on business ethics. This policy records the existing high standards of ethical conduct which all directors and employees are to comply with, and addresses such matters as:

- conflicts of interest
- corporate opportunities
- confidentiality, receipt and use of corporate information
- fair dealing
- protection of and proper use of company assets
- compliance with laws and regulations
- a general obligation to act honestly and in the best interests of the company as required by law
- encouraging the reporting of unlawful or unethical behaviour.

The code of business conduct and ethics is available on the company's website.

The board has a securities trading policy which sets out procedures as to when and how an employee or director can deal in company securities. This policy is consistent with the Securities Markets Act and its insider trading procedures and complies with the NZX and ASX rules.

The company maintains an interests register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving directors. Information from this register in respect of the year ended 30 June 2004 is reported in page 38 of this annual report.

**Health, Safety and Environment Policy**

The company's health, safety and environment policy is as follows:

- the company's board, management and employees are committed to providing a safe and healthy workplace and environment for all employees, authorised visitors and general public
- through competent engineering practice, training, risk identification, assessment and control process, the company addresses hazard, incident and injury prevention and conservation of the environment in respect of projects under the company's management
- appropriate resources are made available to comply with all relevant legislation to ensure that safety in design, safe systems and places of work are

maintained to high standards and that all reasonable steps are taken to ensure no individual or the environment is placed in a situation of endangerment

- a safe environment is the individual and shared responsibility of the company and all its employees
- this OSH&E management policy is based on a commitment that the well-being of all associated personnel is a major consideration of all operations.

**Independent Directors**

The board has determined in terms of NZX Listing Rules that as at 30 June 2004 Prof R F Meyer, Mr P G Foley, Mr S J Rawson and Mr D R Scoffham are independent directors and that Mr R A Radford is not an independent director.

**Corporate Governance Best Practice Codes**

The table below sets out the company's compliance with the NZX Listing Rules and best practice code (with respect to corporate governance) and ASX corporate governance best practice recommendations. Further details are contained in the Company's corporate governance statement (preceding).

NZX LISTING RULE & CODE OF BEST PRACTICE	ASX RECOMMENDATION ASX Corporate Governance Council Best Practice Recommendation	DO WE COMPLY? IF NOT WHY NOT?
Minimum of three directors; two ordinarily New Zealand resident; minimum of two independent directors or one-third of the total directors	Majority of the board should be independent directors	Yes
	Formalise and disclose the functions reserved to the board and those delegated to management	Yes. Board charter formalised, and charter adopted 26 August 2004
	Chairperson should be an independent director	No. Refer to corporate governance statement
Roles of chairperson & chief executive should not be exercised by the same individual	Roles of chairperson and chief executive should not be exercised by the same individual	No. Refer to corporate governance statement
Establish a nomination committee (unless constrained by size)	Establish a nomination committee	No. NZOG benefits from having the whole board involved in the selection process for any new board members
Have formal and transparent methods the nomination & appointment of directors		No. NZOG is too small to benefit from this recommendation
Establish a code of ethics	Establish a code of conduct to guide ethical decision-making	Yes. Formal code of conduct adopted 26 August 2004
	Disclose the policy concerning trading in securities	Yes. Updated securities trading policy approved 26 August 2004
	Require the CEO and CFO to sign a representation letter in respect of financial reporting	Yes. Existing practice
Establish an audit committee	Establish an audit committee	Yes. Existing practice
Audit committee to consist of majority of independent directors; all non-executive; at least three members; at least one with accounting or financial background	Audit committee to consist of only non-executive directors; majority of independent directors; independent chairperson; at least three members	Yes
Other directors, and employees, should only attend audit committee meetings by invitation of the audit committee		Yes

NZX LISTING RULE & CODE OF BEST PRACTICE	ASX RECOMMENDATION ASX Corporate Governance Council Best Practice Recommendation	DO WE COMPLY? IF NOT WHY NOT?
Audit committee should have a written charter that outlines the audit committee authority, duties, responsibilities, and relationship with the board	Audit committee should have formal charter	Yes. Updated audit committee charter adopted on 26 August 2004
Issuers should identify members of the audit committee in their annual report		Yes. Existing practice
The board should regularly review the performance of the audit committee in accordance with the written charter		Yes
The audit committee should address issues of auditor independence		Yes
	Written policies to ensure compliance with ASX Listing Rule disclosure requirements	No. NZOG is considered too small to benefit from a written policy
	Design a communications strategy to promote effective communications with shareholders	Yes. Existing practice
	External auditor to attend annual meeting, and answer shareholder questions on the audit and audit report.	Yes. Existing practice
	Establish policies on risk oversight and management	Yes. Existing practice
	CEO & CFO should represent that risk management and internal control systems for financial reporting are in place and operating effectively	Yes. Existing practice
Establish procedures to regularly assess individual and board performance	Disclose the process for performance evaluation of the board, committees, directors and key executives	Yes. Formal procedures adopted 26 August 2004
Board to consider sufficiency, quality and timeliness of information provided to it by management		Yes. Existing practice
	Provide disclosure in relation to the company's remuneration policies	Yes
Establish a remuneration committee	Establish a remuneration committee	Yes. Existing practice
Formal and transparent method to recommend remuneration packages for directors to the shareholders		Yes
Issuers should identify members of the remuneration committee in their annual report		Yes. Existing practice
Remuneration committee should produce a written charter that outlines its authority, duties, responsibilities and relationship with the board		Yes. Updated remuneration committee charter adopted 26 August 2004
Board should regularly review performance of the remuneration committee in accordance with the written charter		Yes.
	Clearly distinguish the structure of non-executive and executive directors remuneration	Yes. Existing practice
	Ensure that payment of equity-based executive remuneration is in accordance with shareholder-agreed thresholds	Yes. Existing practice
Directors encouraged to take a portion of their remuneration under performance-based equity plan; or re-investment in equity securities of the company		No. Under review
	Establish a code of conduct to guide obligations to legitimate stakeholders	No. NZOG is too small to benefit from a formal code
	Post relevant information and disclosure of corporate governance practices and departures on the company's website	Yes, from 27 September 2004

## SHAREHOLDER AND OPTION HOLDER INFORMATION

## Top 20 Shareholders on the register as at 31 August 2004

Name of Shareholder	Shareholding	% of Reported Capital*
Resources Trust Limited	9,568,325	7.5
NZOG Nominees Limited	6,643,422	5.2
Sik-On Chow	4,300,000	3.4
Chung King Tan	2,000,000	1.6
C E & D P Boreham	1,264,710	1.0
Mehasu Pty Ltd	1,217,987	1.0
Robert Albert Boas	1,202,350	0.9
Ming Chow & Fook Kom Wong	1,200,000	0.9
Peter Edward Radford	1,182,122	0.9
Arthur Thomas Gibbs	888,957	0.7
Merrill Lynch	870,041	0.7
Oxley Graeme Maley	831,152	0.6
Anne Coney	781,600	0.6
Dimensional Fund Advisers	728,259	0.6
A T Hopkins & A J Hopkins	700,000	0.5
Clara Shuk Fun Ma	675,625	0.5
Accident Compensation Commission	667,826	0.5
Kum Hing So	662,318	0.5
Michael Walter Daniel	627,855	0.5
Rodney Fletcher Trowsdale	580,000	0.5
<b>Held in Treasury</b>		
New Zealand Oil & Gas Limited	5,864,515	

## Top 20 Option Holder on the register as at 31 August 2004

Name of Option Holder	Optionholding	% of Total 2005 Options
Walker & Hall Fine Gifts Limited	3,590,942	5.0
Legal & Professional Investment Services Ltd	3,145,383	4.4
Philip George Lennon	2,160,000	3.0
Kum Hing So	2,140,000	2.3
Resources Trust Limited	1,618,947	2.3
Robert Albert Boas	1,517,017	2.1
NZOG Nominees Limited	1,335,297	1.9
Murray Dann	1,146,218	1.6
Waihari Holdings Limited	1,000,000	1.4
C E Boreham & D P Boreham	977,812	1.4
Direct Broking Limited	688,589	1.0
Guan Yue Hong	685,000	1.0
Mehasu Pty Ltd	618,377	0.9
Roy Anthony Radford	611,767	0.9
Charles Brian Kidson	600,000	0.8
Julie Matthews	572,624	0.8
C T Cahill & R F Cahill	554,924	0.8
Stephen John Bryson	532,635	0.7
Robin James Parker	520,000	0.7
Keith McKay Urquhart	498,250	0.7

\* Reported capital represents shares held by the public and therefore excludes 5,864,515 shares held by NZOG as treasury stock.

In the above tables, the holdings of New Zealand Central Securities Depository Limited have been reallocated to its applicable members.

## Securities on Issue

At 30 June 2004 New Zealand Oil & Gas Limited had the following securities on issue:

Reported Capital	128,099,723
Treasury Stock	5,864,515
Total Ordinary Shares on issue	133,964,238
2005 Options	72,177,752

## Voting Rights

Article 26 of the company's constitution provides that on a show of hands every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each share held.

## On-Market Buy-back

The company is not involved in an on-market buy-back.

## Trading Statistics

The company's securities are quoted on the New Zealand Exchange and the Australian Stock Exchange.

## Trading – 12 months ended 31 August 2004

NZX	NZ cents		Volume
	High	Low	
Shares (NOG)*	87	31	45,849,344
Options (NOGOC)*	35	7	59,875,421

## Trading – 12 months ended 31 August 2004

ASX	AU cents		Volume
	High	Low	
Shares (NZO)*	80	26.5	9,805,353
Options (NZOOA)*	32	5	4,964,222

\*Trading codes

## SHAREHOLDER AND OPTION HOLDER INFORMATION (continued)

## Distribution of Holdings

Ordinary Shares as at 31 August 2004

Holding	No. of Shareholders	Total Shares
1-1,000	3,149	2,162,955
1,001-5,000	4,150	10,465,191
5,001-10,000	1,266	10,022,028
10,001-100,000	1,530	42,793,655
100,001 and over	144	68,563,000
<b>Totals</b>	<b>10,239</b>	<b>134,006,829</b>

## Distribution of Holdings

2005 Options as at 31 August 2004

Holding	No. of Option Holders	Total Options
1-1,000	1,574	865,551
1,001-5,000	1,474	3,840,713
5,001-10,000	445	3,475,327
10,001 - 100,000	648	20,783,471
100,001 and over	114	43,157,193
<b>Totals</b>	<b>4,255</b>	<b>72,122,255</b>

A minimum holding is 500 NZOG shares, and 500 options, as defined by the NZX listing rules, and based on market prices on the NZX on 31 August 2004. As defined by the ASX a marketable parcel is 625 NZOG shares, and 625 options at the market price on the ASX on 31 August 2004. As at 31 August 2004 there were 242 shareholders with less than 500 shares and 789 option holder with less than 500 options.

## STATUTORY AND OTHER INFORMATION

## Directors' Remuneration

The total remuneration and other benefits to directors for services to all group companies (including payments made by partly owned and wholly owned subsidiary companies) in all capacities during the year ended 30 June 2004 was \$303,832 being to or in respect of Messrs R A Radford \$183,517; S J Rawson \$28,750; P G Foley \$28,750; R F Meyer \$33,750 and D R Scoffham \$29,065.

## Employees' Remuneration

During the year ended 30 June 2004, two group employees (not including directors) received remuneration (including payments made by partly owned and wholly owned subsidiary companies) of at least \$100,000, one employee being in each of the following income bands: \$110,000-\$119,999; \$180,000-\$189,999.

## Directors' Securities Interests and Dealings

The interests of directors in equity securities of the company at 30 June 2004 were:

Mr R A Radford in respect of 4,628,177 shares and 3,767,647 listed options.

Mr P G Foley in respect of 50,000 listed options.

Mr D R Scoffham in respect of 50,000 shares and 50,000 listed options.

## Acquisition/Disposition of Relevant Interests in Securities of the Company

During the year ended 30 June 2004 Mr D R Scoffham purchased 50,000 shares and 50,000 listed options on market.

## Transactions in which Directors were interested

Nil.

## Interest Disclosures

During the year ended 30 June 2004, Mr D R Scoffham provided a general notice of his interest in a range of equity investments listed on the London Stock Exchange, including some in companies in the oil and gas sector.

## Directors' &amp; Officers' Liability Insurance

The company and its subsidiaries have arranged policies of directors' and officers' liability insurance, which, together with a deed of indemnity, seek to ensure, to the extent permitted by law, that directors and officers will incur no monetary loss as a result of actions legitimately taken by them as directors and officers.

## Substantial Shareholders

Substantial Shareholder notices as at 31 August 2004

Name of Shareholder	Shareholding*
New Zealand Oil & Gas Limited	13,323,200
Resources Trust Limited	7,920,970
NZOG Nominees Limited	8,654,000
Total Issued Capital**	133,951,332

\* This incorporated NZOG's treasury stock and NZOG Nominees Limited shareholding.

\*\* Total issued capital includes treasury stock.

The above substantial shareholder notices were received pursuant to the Securities Amendment Act 1988. Under the provisions of that Act more than one party can hold a relevant interest in the same shares and substantial shareholders are only required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities. For that reason the number of shares stated in the substantial shareholder notices could differ from the numbers currently shown in the share register.



## CORPORATE DIRECTORY

### Directors

R A Radford CA (ICANZ)  
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 (ICANZ)  
general manager

### Registered and Head Office

Level 9, The Shortland Centre  
51-53 Shortland Street  
PO Box 3198 Auckland, New Zealand  
Telephone: +64 9 377 0941  
Facsimile: +64 9 377 5468

*from 15 October 2004*

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  
Telephone: +61 2 9279 0677  
Facsimile: +61 2 9279 0664

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

**Website:** [www.nzog.net](http://www.nzog.net)

**E-mail enquiries:** [enquiries@nzog.net](mailto:enquiries@nzog.net)

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



New Zealand Oil & Gas Limited  
is a leading petroleum exploration  
and production company

[www.nzog.net](http://www.nzog.net)

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