New Zealand Oil & Gas Limited

Annual Report

2002

CONTENTS

ANNUAL GENERAL MEETING

The 2002 Annual General Meeting of New Zealand Oil & Gas Limited will be held at the Crowne Plaza Hotel, Elliott Rooms, 128 Albert Street, Auckland on Friday, 29 November 2002. The meeting will commence at 10.00am.

THE COMPANY

New Zealand Oil & Gas is a petroleum exploration and production company which operates in New Zealand focussing on the Taranaki Basin. New Zealand Oil & Gas, through its subsidiary Pike River Coal Company Limited, has a coking coal deposit in Westland, New Zealand.

2002 ANNUAL REPORT

The 2002 Annual Report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.

RF Meyer
Director
30 September 2002

RA Radford
Director

Chairman's Report

Dear Investor,

You will see from the accompanying financial statements that NZOG generated a surplus for the year ended 30 June 2002 of $1.5 million. This surplus included a gain (non-cash to the company) of $5.4 million which was crystallised upon distribution of Pan Pacific shares to NZOG shareholders under last December's scheme of arrangement. The $1.5 million surplus for the year was net of $6.5 million of exploration costs written off.

These costs related mainly to the two wells drilled during the year, namely Makino and Opito. A side-track of the Makino-1 well is planned to test whether oil lies in commercial quantities to the west. Results from the Opito well were disappointing in that whilst predicted reservoir development was confirmed, no significant hydrocarbons were detected from the well. There may be oil potential updip of the Opito-1 location and this is now being evaluated.

Last December's corporate restructuring, whereby most of the company's investment in Pan Pacific Petroleum NL was delivered direct to NZOG shareholders, proved successful, with NZOG's share price apparently unaffected by the distribution and Pan Pacific's only temporarily so.

Mr Kevin Watson, who had reached the age of 73, retired as a director in March this year. Kevin joined the board in 1994 and made a very sound contribution to the affairs of the company during his period of service. My fellow directors and I wish him well for the future.

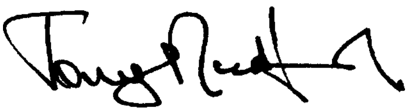
As a result of new acquisitions, NZOG holds nine petroleum permits – four offshore and five onshore – providing the company with an increasing spread of interesting exploration opportunities. Management and directors believe that the Tui prospect is currently the best chance for drilling a major discovery. However, several significant prospects have emerged within our licences as a result of work our explorationists have done over the past year.

For example, the newly acquired permit PEP 38478 provides the company with full coverage over the very substantial Mangatoa gas prospect. Other new prospects relate to younger Miocene-Pliocene sediments within areas we hold under permit between the Kupe/ Kapuni and Maui/Maari fields.

At 30 June 2002, NZOG held a reasonable level of cash, namely $7.2 million and remained debt free. In the near term, the company's earnings are dependent on the Ngatoro oil field, which requires water injection pressure to maintain or increase the rate of production. Water injection into the reservoir has the potential to increase recoverable reserves by around 2 million barrels of oil.

As to our undeveloped reserves, NZOG increased its equity in the Kupe licence to 19% in March 2002. Recent changes in the New Zealand gas market and simplification of joint venture interests may facilitate progress on the key issue of a gas sales contract and allow the Kupe field to be developed.

The Pike River coking coal deposit in Westland is NZOG's other major undeveloped energy resource. We are very keen to get a mine development under way, something which should be of significant benefit to the company and the local community. Your directors are confident that Kupe and Pike River will each prove to be profitable projects once development can be commenced. We consider that little of this potential is reflected in the company's share price.



RA Radford
Executive Chairman
30 September 2002

OPERATIONS REPORT

During the year NZOG expanded its position over the Taranaki Basin. The Taranaki Basin is New Zealand's only hydrocarbon producing area covering 100,000 square kilometres on and offshore, and containing ten producing fields and four large undeveloped discoveries. Since 1970, while approximately 250 wells have been drilled in the Taranaki Basin, on a worldwide basis it remains under-explored compared to other rift complexes of its size and potential.

At the date of this report (September 2002) NZOG held four offshore and five onshore permits, totalling 9,343 km^2 (2.3 million acres or 10% of the Taranaki Basin).

Ngatoro

The Ngatoro field (35.4% equity) currently provides NZOG's core earnings base. The field has now produced 3.4 million barrels of oil since the company brought it into production in 1992.

During the year, fracture stimulation of the productive formation in the Ngatoro-1 well, which is the main producer well, increased flow rates, which helped offset natural decline from the field as a whole.

As of 18 September 2002, daily production was 670 barrels of oil and 2.5 million cubic feet of gas.

NZOG considers water injection into the Ngatoro reservoir will support production rates and add around 2 million barrels to recoverable oil. Agreement of other parties in the venture is needed for the water injection project to proceed.

Elsewhere within the Ngatoro licence area, drilling of the Tabla prospect remains as a near-term objective. Tabla's seismic character is similar to the reservoir rocks that produce oil from the nearby Ngatoro, Goldie and Kaimiro fields. There are two Tabla targets, both within the Mt Messenger Formation. The target at 1300 metres is assessed as having the capacity to contain 730,000 barrels, while the slightly deeper target at 1375 metres has potential of 830,000 barrels.

Kupe Field

Kupe is one of the two significant undeveloped gas fields in New Zealand, the other being Pohokura. Kupe's reserves are assessed at 260 petajoules of gas, 16 million barrels of oil, and 300,000 tonnes of LPG. NZOG holds a 19% equity in the venture.

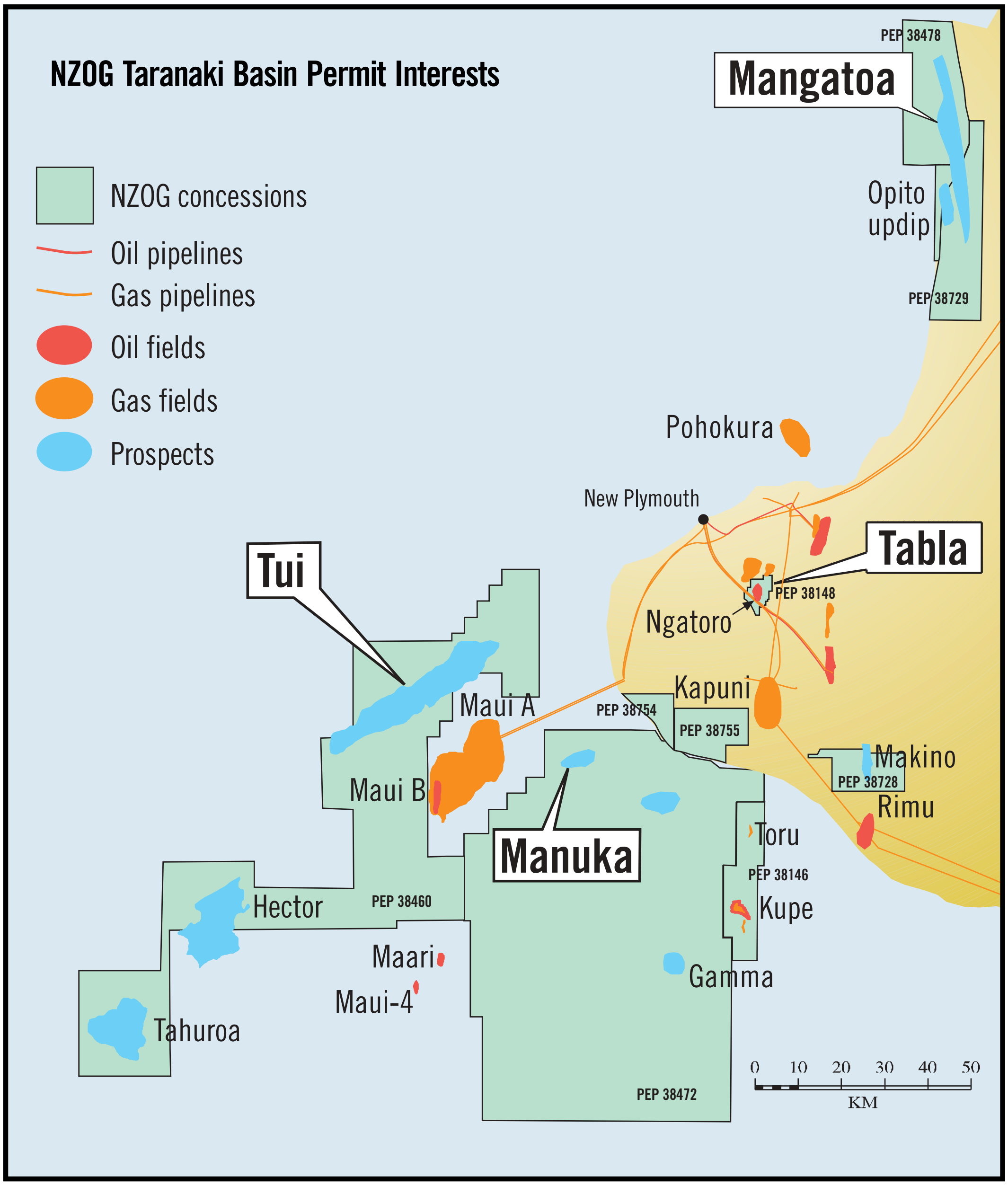
JFP-11 jack-up drilling unit.

Despite being discovered by NZOG in 1986, Kupe's development has been hindered by a lack of gas demand in the face of a Maui-dominated market. Recent indications of early depletion of Maui gas reserves mean that a rapid increase in demand for other sources of gas, such as Kupe, along with higher gas prices, could be imminent.

Kupe is now owned 70% by Genesis Power, the NZ Government 11%, with NZOG holding 19%. Genesis (a state-owned company) is New Zealand's largest electricity and gas retailer, and has stated its wish to see the Kupe gas/oil field onstream by 2006.

Pre-requisites to development of Kupe, include front end engineering studies to confirm the preferred development concept, access to the Maui pipeline for gas transport and a gas sales contract to take in the order of 20 petajoules/year from the field. The initial development at Kupe would occur within the central area of the field, (the "CFA"), where three wells have already confirmed reserves. NZOG supports the concept of a low cost development using a basic offshore production facility and a single pipeline to transport oil and gas streams to shore.

Once CFA production is underway, NZOG expects that prospects such as Stent and Marshall to the south, will



be drilled. These prospects exhibit direct hydrocarbon indications, similar to those over Kupe, and potentially could double or treble reserves.

Tui Prospect – PEP 38460

The Kapuni Group beach system is the most prolific hydrocarbon reservoir fairway in the Taranaki Basin and provides reservoir in both Maui and Pohokura Fields.

The Tui prospect's main target is the Kapuni 'D' beach sands at approximately 3400m depth. Other objectives are the F sands and the shallower Moki Formation. The Eocene Kapuni D sands have a cumulative potential of 700 million barrels, the Miocene Moki A sands 400 million barrels, and the deeper Kapuni F sands 50 million barrels.

At Tui, the D sands closure is thought to be a remnant of an originally much bigger closure, that hosted an oil accumulation extending over both Maui and Tui. This hypothesis is consistent with oil found in the D sands at Maui B, which may also be a remnant of the larger original oil accumulation. Tui has not been affected by the late uplift and faulting that probably caused much

Offshore semi-submersible drilling unit.

of the oil in the original pool at Maui to escape.

The secondary objective is the Moki A sand, similar to that at Maari-1 to the south which flowed oil at 4400 barrels per day. The final objective of the Tui exploration well is the Kapuni F sand, the lowest unit in the Kapuni Group, which has also produced oil at Maui B.

Apart from Tui, other prospects with major potential in the permit area include Hector, Tahuroa, and Pukeko.

Mangatoa Prospect – PEP 38478

PEP 38478 in the offshore North Taranaki Basin was awarded to NZOG in August 2002 jointly with Origin Energy (NZ) Ltd. The permit lies immediately north of PEP 38729, where Opito-1 was recently drilled.

The permit was acquired for the Mangatoa prospect, which is a large sub-thrust play at the Cretaceous level, extending into the company's permit PEP38729. The structure is a north-south elongate feature, sealed updip by the Jurassic and Triassic rocks of the overthrust. The primary target is the Cretaceous Taniwha Formation.

The Te Ranga-1 well, located within the new permit, was drilled in 1986 by Shell BP Todd, and intersected about 140m of predominantly sandy Taniwha Formation in the northern (offshore) part of the structure, at a depth of approximately 3,750m. Significant gas shows were recorded, but the reservoir was not flow tested. NZOG's analysis of the Te Ranga log and core data indicates an average porosity of 13% and permeability of 0.5 millidarcies. Given such parameters, these sands may be capable of flowing at a daily rate of 3 million cubic feet, from a single well.

Mid-case potential for Mangatoa-1 is estimated at 1.7 trillion cubic feet of gas (within a range of 0.5 to 5 tcf) with 119 million barrels (20 to 500 million barrels) of associated condensate. As the Te Ranga-1 well did not drill to the base of the Taniwha sands, the total thickness of hydrocarbon-bearing sands may be greater, and consequently could increase potential reserves and production rates.

NZOG's first phase of activity is to reprocess the existing seismic data and to update delineation of the structure, integrating data obtained from the Opito-1 well.

PEP 38472

NZOG has 50% of this large permit lying offshore south Taranaki between Maari and Kupe. The other 50% is held by the major Austrian exploration company, OMV, who operate the block.

NZOG has reprocessed seismic (over 2000km), with a marked improvement in data quality, resulting in improved definition of both structural and stratigraphic features.

Two main leads have been identified in PEP 38472 – Manuka and Gamma.

Manuka, in the northwest of the permit, is in an area of extensive faulting northeast of Maui. Manuka demonstrates strong seismic amplitude changes of the type often related to the presence of oil and gas at relatively shallow depths. Substantial fault-dependent closure is developed at a number of levels within the Pliocene sequence. Currently NZOG is conducting a more detailed analysis of the amplitude effects associated with the closure.

In the southeast of the permit lies the Gamma lead, which has multiple zones of potential, through stacking of postulated Miocene turbidites sands between 1200 and 2500m across a regional-scale anticlinal nose. Currently this area is being mapped at several levels, and the character of associated seismic amplitudes is being compared with that known to be associated with hydrocarbon-charged sands of this type.

PEP 38754 and PEP 38755

In August 2002 NZOG was awarded two new onshore permits which it applied for under the competitive bidding system. Reprocessing of existing seismic data over the permit areas should determine whether the permits have prospective features similar to those in the adjacent offshore PEP 38472.

Opito-1.

Opito Well – PEP 38729

The Opito-1 exploration well was drilled during May to July 2002 to a total depth of 3031 metres, and was plugged and suspended after encountering minor oil shows in the Kapuni C sands. NZOG holds 75% of the permit.

It appears that the well drilled the south-eastern flank of the Opito prospect, and may be off the petroleum migration pathway.

As substantial untested potential may lie updip of Opito-1, the well was suspended to enable a deviated well to be drilled from the bore hole to the north if current technical studies confirm this potential.

Makino Well – PEP 38728

The Makino-1 well drilled in PEP 38728, early 2002, did not encounter the Tariki sands which were the main objective of the well. While the oil shows within the deeper Kapuni-equivalent sands were encouraging, results did not justify flow testing. The shallower main objective of the well, the Tariki sands were not intersected because the thickness of the overthrust "Murihiku" was greater than expected, placing the truncation of the Tariki sands to the west of the well bore. It is expected that the Makino-1 well will be sidetracked to the Tariki sands further to the west, once the post-well re-evaluation of seismic data has been completed. NZOG has a 5% interest in PEP 38728.

PETROLEUM INTERESTS AS AT 30 SEPTEMBER 2002

JOINT VENTURE	Gross Area km^2	Interest %
Production		
PMP 38148 Ngatoro	38	35.43
Development		
PML 38146 Kupe	256	19.00
Exploration		
PEP 38728	198	5.00
PEP 38729 Opito	394	75.00
PEP 38460 Tui	2816	40.00
PEP 38472	5098	50.00
PEP 38754	64	100.00
PEP 38755	118	100.00
PEP 38478	361	50.00

Pike River Coalfield

In addition to its petroleum interests in the Taranaki, NZOG owns 72% of Pike River Coal Company Ltd (PRCC), which holds Mining Permit 41-453 mining rights over the Pike River coking coal deposit, in the Westland province of New Zealand's South Island.

The remainder of PRCC shares are held by private investors. World prices for coking coal are strong and demand for low ash coking coal exported from New Zealand remains firm.

Ahead of making a formal development decision, PRCC needs to finalise the regulatory process (resource consents and an access agreement with the Department of Conservation – "DoC"), construction contracts, all transport arrangements and financing of the project. Mining is forecast to commence within twelve months of a development decision. First year production of 500,000 tonnes would rise to one million tonnes per annum by the second year.

During the March 2002 quarter, a structured risk assessment was used to define the types and levels of insurance and bonds appropriate for the mine operations. An updated assessment of the environmental effects and safeguards was also prepared. Both reports have been submitted to DoC in support of PRCC's application to construct access to the mine over 9 hectares of DoC controlled land.

A new financial study, which incorporated a more detailed mine plan than the original 2000 feasibility study, was completed in March 2002. Based on recoverable reserves of 15.5 million tonnes of coking coal and using an after tax discount of 8%, the potential value of the project ranges from $70 million to $110 million depending on other variables such as coal prices, exchange rates, etc.

In conjunction with the development decision, NZOG and existing PRCC shareholders plan to make a public offering of shares, and list PRCC on the New Zealand and Australian stock exchanges. It is NZOG's present intention to divest its shareholding at the time of the PRCC listing, either by distribution to NZOG shareholders and/or sale to raise cash for NZOG's oil and gas activities.

Hydrocarbon Reserves 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 Pty Ltd) – a member of the Australasian Institute of Mining and Metallurgy.

FINANCIAL INFORMATION

Financial

A $1.96 million operating surplus was made by NZOG group for the financial year ended 30 June 2002. After providing for taxation and minority interests NZOG's net surplus was $1.5 million. The result included a non-cash gain of $5.4 million on the distribution of Pan Pacific shares and was after fully writing off drilling costs of $6.5 million on the Opito and Makino wells.

Financial results for the year include only a five and a half month contribution from Pan Pacific Petroleum NL whose results ceased to be consolidated from 19 December 2001, when NZOG distributed the majority of its Pan Pacific shareholding to NZOG shareholders.

Sales revenues from the Ngatoro field of $6.1 million were 26% down on the prior year due to oil prices averaging NZ$47 per barrel (NZ$65 in prior year).

During the year $5.6 million was spent on investing activities (mainly oil and gas exploration) funded by net operating cashflows of $5.2 million. Pan Pacific cash of $5.7 million is no longer consolidated in the NZOG group financial statements.

The Company received strong support for a new issue of options, with 72.2 million 2005 options issued in July 2002 to raise $1.4 million.

DIRECTORS AND MANAGEMENT

Mr R A Radford

After gaining his ACA(NZ) via the University of New Zealand, Tony Radford worked mainly in the commercial sector, including senior financial positions in the steel/construction, tin smelting, mining, oil and gas industries within Australia and New Zealand. He has substantial experience in mining and petroleum companies, much of it related to NZOG. Tony is a founding director of the company. He is also Chairman and CEO.

Prof R Meyer

Prof R F Meyer. Ray Meyer obtained his BE from the University of NZ (Canterbury) and his PhD from the University of Manchester. A Distinguished Fellow of the Institution of Professional Engineers New Zealand, his career has included senior research positions in Canada and the Chair of Mechanical Engineering at the University of Auckland. He was a director of ECNZ and of Transpower and is currently a director of Watercare Services Ltd. 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 G Rawson

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

Management

Mr B W Roulston (company secretary)

Brian Roulston qualified as a chartered accountant and chartered secretary following studies at Auckland University and the Auckland Technical Institute. His commercial and financial experience includes ten years with Fay, Richwhite & Company Limited, where his role included company secretary of Horizon Oil NL, Cultus Petroleum NL (in New Zealand), and Capital Markets Limited.

Dr E R Matthews (exploration manager)

Eric Matthews is a petroleum geologist who received Master First Class from Auckland University in 1977 and was awarded a PhD from Victoria University, Wellington in 1982. His career in the oil and gas industry includes service with Petrocorp and Shell NZ. He has 20 years oil exploration experience, working primarily on the Taranaki and Carnarvon Basins.

Mr G A Ward (finance 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.

Financial Statements

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2002

	Note	Consolidated 2002 $000	Consolidated 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Total revenue	2(i)	**19,902**	25,694	**487**	287
Operating surplus/(deficit) before taxation	2(ii)	**1,958**	1,186	**11,019**	(3,121)
Taxation (expense)/benefit	18	**(137)**	701	**–**	–
Operating surplus/(deficit) after taxation		**1,821**	1,887	**11,019**	(3,121)
Minority interest in result for the year	3	**(335)**	211	**–**	–
Net surplus/(deficit) for the year		**1,486**	2,098	**11,019**	(3,121)

Financial results include a five and a half month contribution by former subsidiary Pan Pacific Petroleum NL ('Pan Pacific' or 'PPP') for 2002 and 12 months for 2001.

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2002

	Note	Consolidated 2002 $000	Consolidated 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Equity/(deficit) at beginning of year		**51,101**	49,574	**(3,358)**	6,663
Net surplus/(deficit) for the year		**1,486**	2,098	**11,019**	(3,121)
Movement in foreign currency translation reserve	4	**(66)**	(343)	**–**	–
Net movement in share revaluation reserve		**–**	–	**4,914**	–
Total recognised revenues and expenses		**1,420**	1,755	**15,933**	(3,121)
Movement in minority interest during the period		**(4,272)**	(228)	**–**	–
Options exercised (30 June 2002)	4(iii)	**101**	–	**101**	–
Repurchase and cancellation of shares and elimination of accumulated losses pursuant to Scheme of Arrangement	4(i)	**(11,987)**	–	**(11,987)**	–
Cancellation of other shares and elimination of accumulated losses	4(ii)	**(119)**	–	**(119)**	–
Repurchase and cancellation of treasury stock		**–**	–	**–**	(6,900)
Equity/(deficit) at end of year		**36,244**	51,101	**570**	(3,358)

The notes on pages 12 to 30 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF FINANCIAL POSITION

as at 30 June 2002

		Consolidated		Parent Company	
		2002	2001	**2002**	2001
	Note	**$000**	$000	**$000**	$000
Current Assets					
Short term securities and cash deposits	5	**7,162**	12,776	**4,642**	9,469
Receivables	6	**1,197**	2,760	**426**	865
Inventories	7	**503**	1,782	**–**	–
Investments in listed resource companies	8	**510**	522	**510**	522
Total Current Assets		**9,372**	17,840	**5,578**	10,856
Non-Current Assets					
Receivables	6	**–**	107	**724**	651
Investments in associate company	9	**2,719**	4,479	**3,599**	3,599
Investment in subsidiaries	9	**–**	–	**66,536**	48,472
Investment in listed resource companies	8	**962**	–	**40**	6,112
Fixed assets	11	**410**	3,018	**–**	–
Petroleum and coal interests	13	**28,060**	33,146	**–**	–
Other	14	**188**	1,083	**–**	–
Total Non-Current Assets		**32,339**	41,833	**70,899**	58,834
Total Assets		**41,711**	59,673	**76,477**	69,690
Current Liabilities					
Creditors	15	**4,449**	3,161	**469**	439
Provisions	16	**409**	2,261	**37**	37
Total Current Liabilities		**4,858**	5,422	**506**	476
Non-Current Liabilities	16	**609**	3,150	**75,401**	72,572
Total Liabilities		**5,467**	8,572	**75,907**	73,048
NET ASSETS/(LIABILITIES)		**36,244**	51,101	**570**	(3,358)
EQUITY/(DEFICIT)					
Attributable to Shareholders of the Company	4	**33,250**	43,835	**570**	(3,358)
Attributable to Minority Shareholders of the Group	3	**2,994**	7,266	**–**	–
TOTAL SHAREHOLDERS' EQUITY/(DEFICIT)		**36,244**	51,101	**570**	(3,358)

The notes on pages 12 to 30 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors

R F Meyer
Director
12 September 2002

R A Radford
Director
12 September 2002

STATEMENT OF CASH FLOWS

for the year ended 30 June 2002

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Cash Flows From Operating Activities				
Cash was received from:				
Interest received	**421**	465	**321**	287
Petroleum sales	**13,145**	24,603	**–**	–
	13,566	25,068	**321**	287
Cash was paid for:				
Production expenses	**(7,837)**	(10,531)	**–**	–
Other payments to suppliers and employees	**(495)**	(2,837)	**(1,551)**	(1,662)
	(8,332)	(13,368)	**(1,551)**	(1,662)
Net cash flows from operating activities	**5,234**	11,700	**(1,230)**	(1,375)
Cash Flows From Investing Activities				
Cash was received from:				
Repayment of advances from subsidiary and associate companies	**–**	12	**–**	7,490
Sale of fixed assets	**–**	33	**–**	–
Sale of investment in listed resource company	**586**	–	**586**	–
	586	45	**586**	7,490
Cash was paid for:				
Advances to subsidiary and associate companies	**(240)**	–	**(3,860)**	–
Petroleum and coal expenditures	**(5,891)**	(6,092)	**–**	–
Purchase of other fixed assets	**(27)**	–	**–**	–
Purchase of shares in listed resource company	**(40)**	–	**(40)**	–
Eliminate cash helf by PPP upon deconsolidation (i)	**(5,716)**	–	**–**	–
	(11,914)	(6,092)	**(3,900)**	–
Net cash flows from investing activities	**(11,328)**	(6,047)	**(3,314)**	7,490
Cash Flows From Financing Activities				
Cash was received from:				
Issue of shares in partly owned subsidiary	**791**	234	**–**	–
Issue of shares from exercise of options	**101**	–	**101**	–
Realisation of security deposits	**–**	294	**–**	–
	892	528	**101**	–

Notes:

(i) The elimination of cash held by subsidiary company, results from deconsolidation of Pan Pacific as at 19 December 2001. For further details refer to note 10.

The notes on pages 12 to 30 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (CONTINUED)

	Note	Consolidated Excl PPP 2002 $000	Consolidated Incl PPP 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Cash was paid for:					
Dividend payments		–	(1)	–	(1)
		–	(1)	–	(1)
Net cash flows from financing activities		**892**	527	**101**	(1)
Net (decrease)/increase in cash		**(5,202)**	6,180	**(4,443)**	6,114
Cash at beginning of period		**12,776**	6,770	**9,469**	3,401
Effect of exchange rate changes on cash		**(412)**	(174)	**(384)**	(46)
CASH AT END OF PERIOD		**7,162**	12,776	**4,642**	9,469
Made up as follows:					
Short term securities and cash deposits	5	**7,162**	12,776	**4,642**	9,469

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

	Consolidated Excl PPP 2002 $000	Consolidated Incl PPP 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Operating surplus/(deficit) after taxation	**1,821**	1,887	**11,019**	(3,121)
Adjust for non-cash items in operating surplus/(deficit):				
Amortisation of development expenditure over production	**1,460**	3,324	–	–
Increase in provision for restoration	**179**	176	–	–
Intercompany advances written-back	–	–	**(21,453)**	–
Provision against investment in subsidiaries	–	–	**8,304**	–
Depreciation	**968**	2,433	–	–
Deferred income tax liability	–	(798)	–	–
Future income tax benefit	–	(15)	–	–
Loss on sale of plant and equipment	–	4	–	–
Write-off of petroleum and coal expenditure	**6,548**	2,242	–	–
Write-off loan to associate company	**72**	–	–	–
Write (back)/down of investment in listed resource company	**(490)**	1,992	**(490)**	1,992
(Gain)/loss on disposition of investment in partly owned subsidiary	**(5,418)**	–	**741**	–
Loss on cancellation of shares	–	–	–	211
(Gain) on sale of investment in listed resource company	**(84)**	–	**(84)**	–
In-specie dividend received	**(119)**	–	**(119)**	–
Changes in assets and liabilities:				
(Increase)/decrease in debtors	**(715)**	(608)	**439**	(638)
(Increase)/decrease in field operation consumables and finished goods	–	(117)	–	–
Increase/(decrease) in creditors	**784**	1,382	**29**	145
(Decrease)/increase in provisions	**(184)**	20	–	(10)
Decrease in other assets	–	(222)	–	–
Items included in other cash flow categories:				
Exchange losses	**412**	–	**384**	46
Net cash flows from operating activities	**5,234**	11,700	**(1,230)**	(1,375)

The notes on pages 12 to 30 form part of and are to be read in conjunction with these financial statements.

1. STATEMENT OF ACCOUNTING POLICIES

Reporting Entity

The reporting entity is New Zealand Oil & Gas Limited ('the company') and all 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 year.

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 parent company (New Zealand Oil & Gas Limited ['NZOG']) together with the financial statements of all 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 year, their results are included only from the date of acquisition, while for subsidiaries disposed of during the year, 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

Production, development, exploration and evaluation expenditure is accounted for using the successful efforts method.

(i) *Petroleum Production Expenditure*

Production expenditure carried forward represents the accumulation of exploration, evaluation and development expenditure (excluding fixed asset expenditure) incurred by the group in relation to areas of interest in which petroleum production has commenced. Production expenditure is amortised using the production output method, the straight line method or on a basis consistent with the recognition of revenue, whichever is the more appropriate. The production output method results in an amortisation charge proportional to the depletion of economically recoverable proven reserves. The straight line method results in an amortisation charge over time based on current sales contracts in place. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

The effective remaining life of the production assets has been assessed at between 1 and 7 years.

(ii) *Petroleum Development Expenditure*

Development expenditure carried forward represents the accumulation of exploration, evaluation and development expenditure incurred by the group in relation to areas of interest which are being developed for production.

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

(iii) *Petroleum and Coal Exploration and Evaluation Expenditure*

Petroleum and coal exploration and evaluation expenditure carried forward represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which:

(a) such costs are expected to be recouped through successful development and exploitation of the area, or alternatively, by its sale; or

(b) 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.

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. An area of interest is defined by the group as a licence or permit area.

A further write-down is made where the accumulated expenditure in an area of interest or any part thereof exceeds the directors' valuation of that area of interest. The directors' valuations of areas of interest, especially projects at a pre-development stage, are dependent upon a number of factors which are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the ability to secure sales contracts, levels of reserves, production profiles, estimates of future product sales prices, operating costs and capital expenditures, availability of financing and of tax losses and legislative changes.

The ultimate value to the group of areas of interest and accumulated expenditures is contingent upon the results of further exploration and agreements entered into with other parties and also upon meeting commitments under the terms of licences or 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 period'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 Debtors

Trade debtors are stated at their estimated net realisable value.

Field Operation Consumables and Finished Goods

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

Fixed Assets

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

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

Office partitions, furniture & fittings	5-6 years
Motor vehicles	5-7 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.

The effective remaining life of pipelines and associated production facilities has been assessed at between 1 and 7 years.

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.

Non-current Investments in Unlisted Resource Companies

Long term investments in unlisted resource companies are recorded at cost, except where in the opinion of the directors, there is a permanent diminution in value, in which case they are recorded at their estimated recoverable amount.

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.

The group had independent foreign operations in Australia through Pan Pacific Petroleum NL ('Pan Pacific') for the period to 19 December 2001. The statement of financial position of independent foreign operations in respect of Pan Pacific was translated at the closing rate at 19 December 2001. The statement of financial performance and cash flows of independent foreign operations are translated at the average rate for the period in which the Company had control of the subsidiary. The exchange difference arising from the translation of the opening net investment at an exchange rate different from that at which it was previously reported was taken to the foreign currency translation reserve. At 19 December 2001 the foreign currency translation reserve has been transferred to the retained deficit.

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, debtors, 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

(i) **Cash** includes bank bills, cash on hand and at bank, short term deposits and government stock less any overdraft.

(ii) **Operating cash flows** represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.

(iii) **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.

(iv) **Financing cash flows** represents cash flows arising from cash transactions affecting the capital structure of the group and cash flows from debt financing activities excluding interest on debt finance which is included in operating cash flows.

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

Taxation

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

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

Comparative Figures

As at 30 June 2002 the consolidated assets, liabilities and shareholders equity do not include the previously owned subsidiary Pan Pacific due to deconsolidation of that company on 19 December 2001. The financial results for the current year include the five and a half month contribution from Pan Pacific. Comparative figures for the previous year include Pan Pacific. Where necessary, the amounts for the previous year are reclassified to facilitate comparison.

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

	Consolidated		Parent Company	
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Operating surplus/(deficit) before taxation has been determined after				
(i) **Crediting as income:**				
Sales revenue				
Petroleum sales	**13,913**	25,064	–	–
Other revenue				
Interest received from:				
Other short term securities	**331**	490	**284**	287
Associate and other companies	**37**	48	–	–
Other	–	92	–	–
Gain on sale of investment in partly owned subsidiary	**5,418**	–	–	–
Gain on sale of investment in listed resource company	**84**	–	**84**	–
In specie dividend received	**119**	–	**119**	–
Total revenue	**19,902**	25,694	**487**	287

Petroleum sales revenue of $13,913,000 (2001: $25,064,000) represents the group's share of revenue from the Ngatoro oil field (onshore Taranaki), and up until 19 December 2001, the Chervil oil field (offshore Western Australia), and the Tubridgi gas field (onshore Western Australia).

	Consolidated		Parent Company	
	2002	2001	**2002**	2001
(ii) **Charging as expenses:**				
Amortisation of development expenditure over production	**1,460**	3,324	–	–
Directors' fees	**128**	154	**113**	120
Exchange losses	**411**	27	**384**	46
Fees paid to parent company auditors	**79**	63	**50**	61
Fees paid to parent company auditors for other services	**62**	17	–	17
Fixed asset depreciation	**968**	2,433	–	–
Loss on cancellation of shares	–	–	–	211
Loss on sale of investment in partly owned subsidiary	–	–	**741**	–
Operating expenditure	**8,630**	11,793	**653**	–
Petroleum and coal exploration expenditure written off or down to valuation	**6,548**	2,242	–	–
Provision against investment in subsidiaries	–	–	**8,304**	–
Provision for restoration	**179**	176	–	–
Write-back of intercompany loans	–	–	**(21,453)**	–
Write-back of provision against investments	**(490)**	–	**(490)**	–
Write-down of investment in listed resource company	–	1,992	–	1,992
Write-down of loan in associate	**72**	–	–	–

3. MINORITY INTEREST

The amount attributable to minority interests in the statement of financial performance represents the minority interest in Pan Pacific for the period to 19 December 2001. The amount attributable to minority interest in the statement of financial position at 30 June 2002 represents a 28.3% minority interest in Pike River Coal Company Limited ('PRCC') and a 60% interest in Pafule Pty Ltd. The Pan Pacific minority interest in the statement of financial position has been eliminated (along with the accumulated losses relating to that minority interest) as at 19 December 2001.

4. SHAREHOLDERS' EQUITY

		Consolidated				Parent Company			
	Note	**2002 Number of Shares 000**	**2002 $000**	2001 Number of Shares 000	2001 $000	**2002 Number of Shares 000**	**2002 $000**	2001 Number of Shares 000	2001 $000s
Reported paid in share capital									
Paid in share capital – opening balance		**120,201**	**71,920**	137,450	82,240	**120,201**	**71,920**	137,450	82,240
Shares bought back and cancelled during year pursuant to Scheme	(i)	**(29,506)**	**(17,653)**	–	–	**(29,506)**	**(17,653)**	–	–
Other shares cancelled during year	(ii)	**(321)**	**(192)**	–	–	**(321)**	**(192)**	–	–
Treasury stock cancelled during year		–	–	(17,249)	(10,320)	–	–	(17,249)	(10,320)
		90,374	**54,075**	120,201	71,920	**90,374**	**54,075**	120,201	71,920
Share subdivision	(i)	**30,701**	–	–	–	**30,701**	–	–	–
Shares issued pursuant to Options exercised	(iii)	**180**	**101**	–	–	**180**	**101**	–	–
Treasury share elimination	(i)	**(5,864)**	**(2,794)**	(4,669)	(2,794)	**(5,864)**	**(2,794)**	(4,669)	(2,794)
Paid in share capital-closing balance		**115,391**	**51,382**	115,532	69,126	**115,391**	**51,382**	115,532	69,126
Reserves									
Retained (deficit) reserves brought forward			**(27,857)**		(29,955)		**(74,035)**		(74,334)
Net surplus/(deficit) for period			**1,486**		2,098		**11,019**		(3,121)
Elimination of accumulated losses									
• on shares cancelled during the year pursuant to Scheme	(i)		**5,666**		–		**5,666**		–
• on other shares cancelled during the year	(ii)		**73**		–		**73**		–
• on treasury stock cancelled during the year			–		–		–		3,420
Transfer from foreign currency translation reserve			**(391)**		–		–		–
Retained (deficit) reserves carried forward			**(21,023)**		(27,857)		**(57,277)**		(74,035)
Share revaluation reserve:									
Opening balance			–		–		**1,551**		1,551
Write down of investment in subsidiary			–		–		**(1,262)**		–
							289		1,551
Write back of previous impairment			–		–		**6,176**		–
Closing balance			–		–		**6,465**		1,551
Asset revaluation reserve:									
Opening and closing balance			**2,891**		2,891		–		–
Foreign currency translation reserve:									
Opening balance			**(325)**		18		–		–
Effect of exchange rate change on opening balance of Pan Pacific			**(66)**		(343)		–		–
Transfer to retained (deficit) due to disposal of Pan Pacific	(iv)		**391**		–		–		–
Closing balance			–		(325)		–		–
Total shareholders' equity			**33,250**		43,835		**570**		(3,358)

Notes:

(i) On 19 December 2001 pursuant to a Scheme of Arrangement ('Scheme') 29,505,698 NZOG shares were cancelled with a paid in capital amount of $17,653,000, based on the average paid up amount per share of 59.83 cents, together with related accumulated losses of $5,666,000. The NZOG shares were then subdivided to restore shareholders to the same NZOG shareholding as they held before the share cancellation. As a result of the subdivision the number of NZOG treasury shares increased from 4,669,200 to 5,864,515.

(ii) During the year the Company received distributions of 320,717 NZOG shares from a previously related entity. On receipt the Company cancelled the NZOG shares which had a paid in capital amount of $192,000 based on the average paid up amount per share of 59.83 cents, together with related accumulated losses of $73,000.

(iii) Prior to 30 June 2002 the company had on issue 80,204,246 NZOG options (2001: 80,204,246). Each NZOG option entitled the holder to subscribe for one share in the capital of the company at a price of $0.56, exercisable by 30 June 2002. Prior to their expiry, 179,597 options were exercised by option holders resulting in the issue of 179,597 new ordinary shares at a price of $0.56, representing cach consideration of $101,000. The remaining 80,024,649 NZOG options not exercised, expired on 30 June 2002.

(iv) Due to the deconsolidation of Pan Pacific as at 19 December 2001 the foreign currency translation reserve of $391,000 has been transferred to retained (deficit) reserves.

(v) During the year an option to subscribe for 150,000 ordinary shares was granted in favour of the company's production consultant at a price of $0.60, exercisable between 1 January 2002 and 31 December 2004.

(vi) All shares issued are fully paid. Each issued share is entitled to one vote.

5. SHORT TERM SECURITIES AND CASH DEPOSITS

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Bank	**2,566**	813	**46**	2,534
Cash on deposit	**4,596**	11,963	**4,596**	6,935
	7,162	12,776	**4,642**	9,469

Included in cash on deposit are US$ balances of $473,000 (NZ$972,000) (2001: US$1,045,000 [NZ$2,505,000]).

6. RECEIVABLES

	Note	Consolidated		Parent Company	
		Excl PPP	Incl PPP		
		2002	2001	**2002**	2001
		$000	$000	**$000**	$000
Current receivables					
Trade debtors	(ii)	**961**	2,302	**190**	592
Interest receivable		**20**	72	**20**	57
Tax refund		–	170	–	–
Advance to associates		**216**	216	**216**	216
		1,197	2,760	**426**	865
Non-current receivables					
Advances to subsidiaries	(i)	–	–	**724**	651
Advances to associates		–	107	–	–
		–	107	**724**	651

Notes:

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

(ii) Included in trade receivables is US$185,000 (NZ$375,000) (2001: US$343,000 [NZ849,000]) which is not hedged.

7. INVENTORIES

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	2002	2001
	$000	$000	$000	$000
Field operation consumables	**503**	870	–	–
Finished goods (oil stock)	–	912	–	–
	503	1,782	–	–

8. INVESTMENTS IN LISTED RESOURCE COMPANIES

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	2002	2001
	$000	$000	$000	$000
Current				
Shares at book value	**1,264**	2,514	**1,264**	2,514
Less provision for diminution in value	**(754)**	(1,992)	**(754)**	(1,992)
	510	522	**510**	522
Market value	**530**	522	**530**	522
Non-current				
Shares at book value	**962**	–	**40**	6,112
Market value	**1,034**	–	**45**	6,866

9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	2002	2001
	$000	$000	$000	$000
Investment in associates – unlisted shares	**2,719**	2,719	**2,719**	2,719
Investment in unlisted resource company	–	1,760	**880**	880
	2,719	4,479	**3,599**	3,599
Investment in subsidiaries	–	–	**74,839**	48,472
Provision for diminution	–	–	**(8,303)**	–
	–	–	**66,536**	48,472

Notes:

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

10. DISPOSAL OF SUBSIDIARY

As at 30 June 2002 the consolidated assets and liabilities do not include the previously owned subsidiary Pan Pacific Petroleum NL due to de-consolidation of that company as a result of NZOG's distribution of 115,256,172 Pan Pacific shares on 19 December 2001, pursuant to the Scheme. The distribution was at a deemed sales price of 10.4 cents per Pan Pacific share giving rise to a gain for the group of $5,418,000 (parent loss of $741,000). In consideration for the shares NZOG shareholders' agreed to sell back 29,505,698 NZOG shares. These NZOG shares and $5,666,000 of related accumulated losses were subsequently cancelled. The financial effect of the scheme was to reduce the NZOG group equity (and net assets) by $12,878,000 (as represented below). Shareholders equity was reduced by $17,653,000. At 30 June 2002 NZOG holds a 5.3% interest in Pan Pacific.

	As at 19 December 2001
	$000
Current Assets	
Short term securities and cash deposits	5,716
Receivables	2,363
Inventories	1,640
Total Current Assets	9,719
Non-Current Assets	
Fixed assets	1,642
Petroleum interests	7,404
Deferred tax assets	1,091
Loans to associate companies	414
Total Non-Current Assets	10,551
Total Assets	20,270
Less:	
Current Liabilies	4,727
Non-Current Liabilities	2,665
Total Liabilities	7,392
Net Assets	12,878

11. FIXED ASSETS

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
(i) **Production assets**				
Cost	**1,410**	23,638	–	–
Accumulated depreciation	**(1,176)**	(20,786)	–	–
Book value	**234**	2,852	–	–

(ii) **Other fixed assets**				
Cost	**610**	583	–	–
Accumulated depreciation	**(434)**	(417)	–	–
Book value	**176**	166	–	–
Book value of fixed assets	**410**	3,018	–	–

12. JOINT VENTURES

NZOG group interests held at 30 June 2002, in significant unincorporated joint ventures established to explore, develop and produce petroleum products and the contributions made by those joint ventures to group results are as follows:

	Consolidated Percentage Interest		**Parent Company Percentage Interest**	
	2002	2001	**2002**	2001
Licence (Joint Venture)	%	%	%	%
PML 38146 (Kupe)	**19.0**	16.5	–	–
PMP 38148 (Ngatoro)	**35.4**	35.4	–	–
PEP 38460 (West Maui)	**40.0**	80.0	–	–
PEP 38472 (West Kupe)	**50.0**	100.0	–	–
PEP 38728 (Makino)	**5.0**	0.0	–	–
PEP 38729 (Opito)	**75.0**	0.0	–	–

The financial statements of all joint ventures are unaudited.

The contribution made by joint ventures to group results was to increase revenues by $13,913,000 (2001: $25,064,000) and expenses by $15,628,000 (2001: $19,792,000).

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

	Consolidated		**Parent Company**	
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Current Assets				
Short term securities and cash deposits	**1,827**	150	–	–
Trade debtors	**28**	14	–	–
Field operation consumables	**503**	870	–	–
Finished goods (oil stock)	–	912	–	–
Non-Current Assets				
Fixed assets	**234**	2,852	–	–
Petroleum interests	**28,060**	33,146	–	–
Total Assets	**30,652**	37,944	–	–
Current Liabilities				
Creditors and borrowings	**2,824**	1,185	–	–
Provisions	–	1,998	–	–
Non-Current Liabilities				
Provisions	**562**	1,374	–	–
Total Liabilities	**3,386**	4,557	–	–
Net Assets held in Joint Ventures	**27,266**	33,387	–	–

13. PETROLEUM AND COAL INTERESTS

a) **Carrying Values**	Note (i)	Consolidated 2002 $000	2001 $000	Parent Company 2002 $000	2001 $000
Petroleum production expenditure	(ii)	**2,159**	3,777	**–**	–
Petroleum exploration and evaluation expenditure					
Petroleum mining licence – Kupe	(iii) & (iv)	**14,175**	12,352	**–**	–
Petroleum prospecting licences		**1,896**	8,274	**–**	–
Coal exploration and evaluation expenditure	(v)	**9,830**	8,743	**–**	–
Total accumulated exploration and evaluation expenditure		**25,901**	29,369	**–**	–
Total accumulated expenditure		**28,060**	33,146	**–**	–

Notes:

(i) Directors have carried out a valuation of production, development, exploration and evaluation assets, as at 30 June 2002, solely for the purpose of determining the recoverability of the amounts carried in the group financial statements in respect of each area of interest, in accordance with the groups accounting policy and accounting standards. The directors' valuations for each area of interest are based on the proven and probable reserves set out below. Comparative figures at 30 June 2001 include assets of partly owned subsidiary Pan Pacific and directors of the company have relied upon the valuations carried out by Pan Pacific. Where the directors' valuations are in excess of the carrying value in the financial statements that excess has not been included in the financial statements.

(ii) Directors' valuations for production assets were determined using net present value of after tax cash flows (discounted at 10%), with the exception of the Ngatoro field which has been valued on a before tax basis, in recognition that NZOG has available tax losses to utilise against Ngatoro profits.

(iii) The Kupe petroleum mining licence valuation included in accumulated petroleum exploration and evaluation expenditure, is based on the project proceeding to development and is dependent upon a number of factors which are uncertain or tentative at the time of valuation and which may be subject to change. Such factors include the ability to secure sales contracts, levels of reserves, production profiles, estimates of future product sales prices, operating costs and capital expenditures, availability of financing and of tax losses and legislative changes. The directors believe that the accumulated petroleum exploration and evaluation expenditure is recoverable through the Kupe project proceeding to development.

(iv) An investment held in a listed resource company of $1,760,000 was reclassified as Kupe petroleum exploration and evaluation, upon that company becoming a wholly owned subsidiary in March 2002.

(v) Coal exploration and evaluation expenditure relate to partly owned subsidiary Pike River Coal Company Limited ('PRCC'). The amount carried in the financial statements is supported by financial studies and pricing of equity issued by PRCC to third party investors during the year. The directors believe that the carried costs are recoverable through the Pike River project proceeding to development. PRCC has applied for resource consents and access through conservation land, which are pre-requisites to enable development to proceed.

b) Oil & Gas Reserves and Resources

	Crude Oil & Natural Gas Liquids (Million Barrels) 2002	2001	Natural Gas (Billion Cubic Feet) 2002	2001
Undeveloped				
NEW ZEALAND:				
Proven and probable reserves	**5.8**	5.1	**50.1**	43.5
Developed				
NEW ZEALAND:				
Proven and probable reserves	**0.3**	0.6	**0.9**	1.2
AUSTRALIA:				
Proven and probable reserves	**–**	–	**–**	5.4
Total Developed Reserves	**0.3**	0.6	**0.9**	6.6

c) Coal Reserves

	Coal (Million Tonnes) 2002
Undeveloped – Pike River	
Proved and probable	**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.

(i) 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). The group's interests in developed proven and probable oil and gas reserves at 30 June 2002 are in the Ngatoro oil field (onshore Taranaki) and at 30 June 2001 are in Ngatoro and the Tubridgi gas field (onshore Western Australia).

(iii) Coal reserves are the estimated quantities of coal which are expected with reasonable certainty to be recoverable based on an updated 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 (0.5km to 1km apart), than probable reserves which are less well defined and have less dense drilling or 'observation' points (1km to 2km apart).

(iv) Oil, gas and coal reserves are reported in accordance with Section 10.11 and Section 10.12 respectively, of the New Zealand Stock 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.

14. OTHER NON-CURRENT ASSETS

		Consolidated		Parent Company	
		Excl PPP	Incl PPP		
		2002	2001	**2002**	2001
	Note	**$000**	$000	**$000**	$000
Future income tax benefit	18	**117**	1,012	–	–
Security deposits	22	**71**	71	–	–
		188	1,083	–	–

Note:

In the 2001 year the future income tax benefit arises solely from consolidation of Pan Pacific.

15. CREDITORS

	Consolidated		Parent Company	
	Excl PPP	Incl PPP		
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Trade creditors	**4,211**	3,161	**469**	439
Owing to associate companies	**238**	–	–	–
	4,449	3,161	**469**	439

16. PROVISIONS AND NON-CURRENT LIABILITIES

		Consolidated		Parent Company	
		Excl PPP	Incl PPP		
		2002	2001	2002	2001
		$000	$000	$000	$000
Current					
Restoration	(i)	–	1,998	–	–
Employee leave entitlements	(ii)	311	226	–	–
Taxation		59	–	–	–
Other		39	37	37	37
		409	2,261	37	37
Non-Current					
Restoration	(i)	562	1,374	–	–
Employee leave entitlements	(ii)	47	–	–	–
Deferred taxation	18	–	1,776	–	–
Advances from wholly owned subsidiary companies to parent		–	–	75,401	72,572
		609	3,150	75,401	72,572

(i) Movements in restoration provision				
Opening balance	3,372	3,302	–	–
Charge to operating surplus	179	70	–	–
Deconsolidation of Pan Pacific	(2,989)	–	–	–
Closing balance	562	3,372	–	–

(ii) Movements in employee provision				
Opening balance	226	204	–	–
Charge to operating surplus	132	22	–	–
Closing balance	358	226	–	–

17. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The group operates United States dollar bank accounts for oil 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.

In New Zealand there is a concentration of credit risk in respect of trade debtors for petroleum sales. All oil extracted from the Ngatoro field is presently sold to Shell New Zealand Limited under a short term contract.

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 debtors and creditors and borrowings approximates fair value due to the short maturity of these instruments. Adequate provision is held in respect of trade debtors.

Estimated fair values, based upon net realisable value, of the group's remaining financial instruments at 30 June 2002 are as follows:

	2002 Carrying Value $000	2002 Fair Value $000	**2001 Carrying Value $000**	2001 Fair Value $000
Consolidated				
Investments in listed resource companies	**1,472**	1,564	**522**	522
Security deposits	**71**	71	**71**	71
Investment in unlisted resource companies	**–**	–	**1,760**	1,760
Parent Company				
Investments in listed resource companies	**550**	575	**6,634**	7,338
Investment in unlisted resource companies	**880**	880	**880**	880

Interest Rate Risk

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

	Maturity Date	**Interest Rate**
Short Term Securities and Cash Deposits:		
Bank and cash on deposit	At call	1.20% to 5.70%
Security deposits	June 2003	5.30% to 6.0%

All other financial instruments are non interest bearing.

18. 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 2002 of $47,944,000 (2001: $46,409,000). The net future income tax benefit of these tax losses is not carried forward as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

(b) Consolidated and Parent

	Consolidated		**Parent Company**	
	2002 $000	2001 $000	**2002 $000**	2001 $000
i) Income tax expense				
Operating surplus/(deficit) before taxation	**1,958**	1,186	**11,019**	(3,121)
Income tax expense/(benefit) at 33%	**646**	391	**3,636**	(1,030)
Adjusted for tax effect of:				
Timing differences New Zealand	**1,627**	(1,443)	**(4,244)**	303
Permanent differences New Zealand	**(1,938)**	657	**608**	727
	335	(395)	**–**	–

		Consolidated 2002 $000	Consolidated 2001 $000	Parent Company 2002 $000	Parent Company 2001 $000
Consolidated from Pafule and Pan Pacific:					
Net timing differences		**(33)**	–		
Permanent differences		**(6)**	1		
Benefit of tax losses of prior years recouped		–	(277)		
Difference in foreign tax rates		**(31)**	(20)		
Income tax (benefit)/expense on operating surplus before tax items		**265**	(691)		
Restatement of deferred tax balance due to change in company tax rate		–	100		
Add income tax under provided in prior year		**(128)**	(110)		
Income tax (benefit)/expense attributable to operating surplus		**137**	(701)		
ii) Deferred taxation (consolidated from Pafule and Pan Pacific)					
Opening balance		**1,776**	2,650		
Movement during the year		**(1,776)**	(782)		
Exchange movement during the year		–	(92)		
Closing balance		–	1,776		
iii) Future income tax benefit (consolidated from Pafule and Pan Pacific)					
Opening balance		**1,012**	1,032		
Movement during the year		**(888)**	14		
Exchange rate movement during the year		**(7)**	(34)		
Closing balance		**117**	1,012		
iv) Future income tax benefit not taken into account					
Taxation losses not recognised					
• New Zealand	(i)	**47,944**	46,409	**26,258**	26,503

Notes:

(i) The value of taxation losses not brought to account at 30 June 2002 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.

(ii) The taxation losses above include timing differences of $4,464,000 (2001: $7,683,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

19. RELATED PARTY DISCLOSURES

Except as disclosed above and in Notes 2, 4, 6, 9, 10, 12, 19, 20 and 23 there were no material transactions with related parties during the year and no material balances due to or from related parties at 30 June 2002.

20. EMPLOYEE SHARE OWNERSHIP PLAN

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

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

	NZOG Shares		2005 Options	2001 Options
	2002	2001	**2002**	2001
	Number	Number	**Number**	Number
	000	000	**000**	000
Allocated to employees				
• Options to purchase	**5,314**	5,508	–	2,757
• Savings shares	**764**	726	–	–
• Unallocated	**1,164**	1,181	**1,355**	1,489
	7,242	7,415	**1,355**	4,246
As a percentage of total reported capital	6.3%	6.4%		

Notes:

1. 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.
2. The NZOG Board's Remuneration Committee (which comprises only non-executive directors) nominates employees to participate in the ESOP and determines the numbers and exercise prices of options to be granted. Exercise prices are set at a minimum to market value at date of granting, to which an escalation factor generally applies.
3. As a result of the reduction in value of NZOG shares by the separation of Pan Pacific pursuant to the Scheme referred to in Note 4 (i) and 10, all employee participants in the ESOP who had been allocated rights to purchase existing issued NZOG shares, were granted equal numbers of rights to purchase Pan Pacific shares which were received for account of the ESOP. Accordingly 5,314,000 PPP shares were subject to employee option rights at 30 June 2002. The exercise prices previously relating to NZOG shares, were split between the ex-distribution NZOG shares and the Pan Pacific shares in the ratio 74.4:25.6 in accordance with the values set out in the Scheme document. 1,377,000 unallocated PPP shares were held by the ESOP at 30 June 2002.

b) Funding

NZOG group holds redeemable preference shares in Nominees, at a cost of $3,750,000, (book value $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 $216,000 (2001: $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 by employees to acquire saving shares amounts to $300,000 (2001: $275,000)

	Consolidated		Parent Company	
	2002	2001	**2002**	2001
	$000	$000	**$000**	$000
Investment and advances				
Investment in shares	**2,719**	2,719	**2,719**	2,719
Advances	**216**	216	**216**	216
	2,935	2,935	**2,935**	2,935

(c) Control

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

(d) Financial Position and Performance of the ESOP

	Consolidated Market Values		Consolidated Cost	
	2002 $000	2001 $000	**2002 $000**	2001 $000
(i) Financial Position				
Equity				
Share capital			**3,750**	3,750
Retained deficit			**(1,266)**	(1,491)
			2,484	2,259
Assets				
PPP and NZOG shares and NZOG options				
– allocated	**2,849**	2,687	**2,061**	3,517
– unallocated	**667**	576	**705**	508
	3,516	3,263	**2,766**	4,025
Less provision for diminution in value	**–**	–	**(153)**	(1,646)
	3,516	3,263	**2,613**	2,379
Bank	**52**	23	**52**	23
Debtors	**98**	76	**98**	76
	3,666	3,362	**2,763**	2,478
Less Liabilities				
Advances due to NZOG	**(216)**	(216)	**(216)**	(216)
Creditors	**(63)**	(15)	**(63)**	(15)
	(279)	(231)	**(279)**	(231)
Net Assets	**3,387**	3,131	**2,484**	2,247
(ii) Financial Performance				
Interest income			**9**	–
Accounting and legal fees			**29**	9
Write-back provision for diminution in value			**(1,493)**	–
Loss on sale of securities			**1,256**	2

Two of the NZOG ESOP trusts were wound-up during the year and the assets, being NZOG shares and options were sold to the remaining trust. This sale crystallised a loss of $1.235 million which had previously been provided for. The previous provision for diminution in value of $1.493 million was consequently reversed.

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

21. GEOGRAPHICAL SEGMENTS

	New Zealand		Australia		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001
	$000	$000	**$000**	$000	**$000**	$000
Sales revenue (gross)	**6,095**	8,282	**7,818**	16,782	**13,913**	25,064
Net surplus/(deficit) for the year	**1,153**	2,604	**333**	(506)	**1,486**	2,098
Total assets	**41,711**	39,875	**–**	19,798	**41,711**	59,673

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

22. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

At balance date the group has capital expenditure commitments of $nil (2001: $154,000). The comparative figure is attributable to Pan Pacific.

Exploration Commitments

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

(b) Security deposits of $71,000 (2001: $71,000) are held subject to licensed work programme commitments being met.

(c) The Company has committed to drilling the Tabla exploration well at an estimated cost to the company of $615,000.

Contingent Liabilities

A potential claim against the Company, or its subsidiary (Pafule Pty Limited), may arise as a result of obligations under a contract of employment which may have been crystallised as a result of a third party breach of that contract in a prior year, however directors do not expect additional liability to exist. The Company is taking legal action to confirm its position.

In accordance with normal accounting requirements, none of the above commitments and contingencies have been provided for in the financial statements.

23. SUBSIDIARY COMPANIES AND ASSOCIATES

Wholly Owned Subsidiary Companies

ANZ Resources Pty Limited [see note (i)]
Australia and New Zealand Petroleum Limited
Australia & New Zealand Petroleum Limited [see note (i)]
Curdridge Investments Limited
Delta Petroleum Limited [see note (iv)]
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

	Note	Group Interest 2002 %	2001 %
Partly Owned Subsidiaries			
Pafule Pty Limited	(i) & (iii)	**60**	58
Pan Pacific Petroleum NL	10	–	58
Pike River Coal Company Limited	13(iv)	**72**	75
Associate Companies			
NZOG Nominees Limited	20	**50**	50

Notes:

(i) Australian registered company.

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

(iii) On 13 December 2001 the consolidated entity purchased 60% of the voting shares of Pafule Pty Limited ('Pafule'). 100% of the Pafule shares were previously held by Pan Pacific, formerly a 57.8% owned subsidiary of NZOG.

(iv) On 27 March 2002 a subsidiary company acquired 100% of the ordinary share capital of Delta Petroleum Limited.

24. EARNINGS PER SHARE

	2002 Cents	2001 Cents
Basic earnings per share	**1.3**	1.8
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	**115,323,562**	115,532,071
Diluted earnings per share	**1.9**	2.9
Weighted average number of ordinary shares and options outstanding during the year used in the calculation of diluted earnings per share	**187,651,314**	195,736,317

25. EVENTS SUBSEQUENT TO BALANCE DATE

On 29 May 2002 the Company announced a new issue of share options ("2005 Options"). Shareholders and/or option holders of NZOG at 7 June 2002 were entitled to one new 2005 Option for each two shares and/or existing options held. The 2005 Options were offered at a price of 2 cents each, payable on application. The Offer closed for shareholders and existing option holders on 5 July 2002.

On 22 July 2002 the Company issued 72,177,752 new 2005 Options for cash consideration of $1,444,000.

Each 2005 Option entitles the holder to acquire an ordinary share in NZOG and may be exercised by the option holder at any time up to close of business on 30 June 2005 on the payment of 60 cents per share. At 30 June 2005 the 2005 Options will expire.

AUDIT REPORT

AUDIT REPORT TO THE SHAREHOLDERS OF NEW ZEALAND OIL & GAS LIMITED

We have audited the financial statements on pages 8 to 30. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2002. This information is stated in accordance with the accounting policies set out on pages 12 to 15.

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 2002 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 issued by the Institute of Chartered Accountants of New Zealand. 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 8 to 30:
  - 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 2002 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 12 September 2002 and our unqualified opinion is expressed as at that date.

KPMG

Wellington

CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance practices that were in place during the financial year unless otherwise stated.

Board of Directors and its Committees

The board is responsible for the overall corporate governance of the company including the strategic direction, determination of policy and matters of finance, approval of contracts and expenditures and monitoring of management's achievement of the board's instructions. 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, which is not to be unreasonably withheld. The board has established two committees, being the audit committee and the remuneration committee, to assist in the execution of its responsibilities.

The number of directors is specified in clause 34.1 of 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.

	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 A K R Watson, *AM, FAIBF*	Retired 27 March 2002	

Audit Committee

The terms of reference of the audit committee as approved by the board of directors are:

- the committee is to be chaired by a non-executive director and comprise the entire board;
- a quorum of three is required;
- to ensure that the requirements of the board for full and appropriate reporting by the company are in accordance with financial reporting legislation, generally accepted accounting practice and stock exchange listing requirements;
- to review the adequacy of administrative, operating and accounting control systems maintained by management and monitor their appropriateness;
- to provide an avenue of communication between auditors and the board, in particular in relation to matters which relate to financial reporting and require consideration by the directors;
- to act as a delegate of the board on financial reporting issues;
- the external auditors are invited to audit committee meetings at the discretion of the committee and also have direct access to the committee chairman.

The chairman of the audit committee is Prof. R F Meyer.

Remuneration Committee

The terms of reference as approved by the board of directors are:

- the committee is to be chaired by a non-executive director and comprised of a majority of non-executive directors;
- a quorum of two is required;
- to approve the remuneration and employment terms and conditions of the chief executive;
- to approve allocations of shares and options to group staff under the company's employee share plan and advise the trustee/custodian accordingly;
- to recommend to the board, any amendments to the employee share plan;
- to review submissions from the chief executive on conditions of employment, performance and remuneration of staff of group companies.

The members of the remuneration committee are Prof. Meyer (chairman) and Mr P G Foley.

Health, Safety and Environment Policy

NZOG has adopted the following health, safety and environment policy:

- NZOG board, management and employees are committed to providing a safe and healthy workplace and environment for all employees, visitors and the general public.
- embracing occupational safety and health and environmental protection and preservation as cornerstones of our OSH&E management philosophy, NZOG shall through: competent engineering practice, training, risk identification, assessment and control process, address hazard, incident and injury prevention and conservation of the environment with equal priority to its objective of discovering and producing petroleum.
- resources commensurate with this priority shall be made available to comply as a minimum with all relevant legislation to ensure that safety in design, safe systems and places of work are maintained to high oil industry standards and that all reasonable steps are taken to ensure no individual or the environment is placed in a situation of endangerment.
- as the development and maintenance of a safe work environment is recognised as both the individual and shared responsibility of all NZOG employees, commitment to this achievement shall include joint consultation.
- 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 and exploration activity. People and the environment are the most important asset of the future.

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 2002 was $295,574 being to or in respect of Messrs R A Radford $182,762; A K R Watson $21,562; S J Rawson $28,750; P G Foley $28,750; and R F Meyer $33,750.

Mr A K R Watson also received a Director's Retirement Allowance of $20,949 being the amount accrued up to the date at which the Company's policy on the payment of such allowances was amended.

During the year Mr R A Radford obtained independent professional advice in the conduct of his duties as a director and relating to substantial security holdings. NZOG paid 50% of the costs related to that advice, being $5,300.

Employees' Remuneration

During the year ended 30 June 2002, four 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: $100,000-$109,999; $110,000-$119,999; $200,000-209,999; $210,000-$219,999

Directors' Securities Interests and Dealings

The interests of directors (and their associates) in equity securities of the company at 30 June 2002 were:

Mr R A Radford and associates in respect of 6,374,558 shares and 3,767,647 options.

Acquisition/Disposition of Relevant Interests in Securities of the Company

The following changes occurred in respect of Mr R A Radford's relevant interests (as defined by Section 146 Companies Act 1993) in shares of the Company:

Mr Radford's relevant interests in the company's 2002 listed options ceased on expiry of those options on 30 June 2002. Mr Radford acquired relevant interests in 3,767,647 listed 2005 options at 2 cents each pursuant to entitlements from the company's rights issue which closed on 5 July 2002.

Subsequent to balance date, Mr P Foley purchased 50,000 NZOG 2005 Options. Mr Foley is a director of New Zealand Oil & Gas Limited.

Transactions in which Directors were interested

The Scheme of Arrangement whereby Pan Pacific Petroleum shares were distributed to NZOG shareholders was a transaction in which Mr Radford had an interest as a director, officer and shareholder of both companies; and Mr Watson had an interest as a director of both companies and as a shareholder of Pan Pacific Petroleum.

Interest Disclosures

During the year ended 30 June 2002 there were no new disclosures of interest by directors entered into the Interests Register maintained by New Zealand Oil & Gas Limited.

Shareholder and Optionholder Information

Top 20 Shareholders on the register as at 30 September 2002

Name of Shareholder	Shareholding	% of Reported Capital*
Resources Trust Limited	7,920,970	6.9
NZOG Nominees Limited	7,255,918	6.3
Sik-On Chow	3,400,000	2.9
Chung King Tan	2,200,000	1.9
Merrill Lynch	1,294,979	1.1
Mehasu Pty Ltd	1,217,987	1.1
Peter Edward Radford	1,182,122	1.0
Robert Albert Boas	1,100,000	1.0
G M Robinson & D J Bradley	1,000,000	0.9
Franz Albert Buchler & Sina Maria Buchler	920,000	0.8
Citibank Nominees (NZ) Limited	818,477	0.7
Ming Chow & Fook Kom Wong	800,000	0.7
Tyrannus Holdings Ltd	735,178	0.6
Clara Shuk Fun Ma	675,625	0.6
A T Hopkins & A J Hopkins	500,000	0.4
Song and Wen Holdings Pte Limited	500,000	0.4
Oxley Graeme Maley	500,000	0.4
Forbar Nominees Limited	463,364	0.4
Amalgamated Dairies Charitable Educational Trust	459,375	0.4
C E Boreham & D P Boreham	455,000	0.4
Held in Treasury		
New Zealand Oil & Gas Limited	5,864,515	

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

Top 20 Optionholders on share register as at 30 September 2002

Name of Option holder	Optionholding	% of Total 2005 Options*
Resources Trust Limited	6,734,758	9.3
Tubridgi Petroleum Pty Limited	3,144,915	4.4
Sik-On Chow	1,668,592	2.3
Chung King Tan	1,431,613	2.0
NZOG Nominees Limited	1,335,297	1.9
Robert Albert Boas	1,278,850	1.8
C E Boreham & D P Boreham	1,077,812	1.5
Murray Dann	1,001,568	1.4
Walker & Hall Fine Gifts Limited	918,861	1.3
Peter Edward Radford	889,841	1.2
William Richard Treuren	752,027	1.0
Mehasu Pty Ltd	618,377	0.9
Roy Anthony Radford	611,767	0.8
William John Wallace	590,000	0.8
Julie Matthews	572,624	0.8
Joy Jones	570,000	0.8
ASB Nominees Limited	512,836	0.7
G M Robinson & D J Bradley	500,000	0.7
Miriam Hughes	474,236	0.7
Amalgamated Dairies Limited	444,236	0.6

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

Securities on Issue

At 30 June 2002 New Zealand Oil & Gas Limited had the following securities on issue.

Reported Capital	115,390,951
Treasury Stock	5,864,515
Total Ordinary Shares on issue	121,255,466
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

There is no on-market buy-back.

Trading Statistics

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

	NZSE Shares (NOG)* NZ$	NZSE Options (NOGOC)* NZ$	ASX Shares (NZO)* A$	ASX Options (NZOOA)* A$
Trading – 12 months ended 30 September 2002				
Year's low-high	30c-49c	5c-8c	25c-38c	4c-7c
Year's total volume traded	20,398,825	5,888,298	3,228,925	136,000

*Trading codes

Distribution of Holdings

Ordinary Shares as at 30 September 2002

Holding	No of Shareholders	Total Shares
1-1,000	6,966	3,057,695
1,001-5,000	4,244	10,587,168
5,001-10,000	1,154	9,534,905
10,001-100,000	1,306	38,339,789
100,001 and over	122	59,735,909
	13,792	**121,255,466**

2005 Options as at 30 September 2002

Holding	No of Optionholders	Total Options
1-1,000	1,691	920,104
1,001-5,000	1,717	4,566,066
5,001-10,000	511	3,952,075
10,001-100,000	701	21,286,789
100,001 and over	108	41,453,718
	4,728	**72,177,752**

A minimum holding as defined by the NZSE listing rules is 1000 NZOG shares, and 1000 options. 4756 shareholders and 1502 optionholders held less than a minimum holding on the New Zealand share register.

As defined by the ASX a marketable parcel is 1667 NZOG shares, and 1667 options. 1,236 shareholders and 103 optionholders held less then a marketable parcel on the Australian share register.

Substantial Shareholders

Substantial Shareholder notices as at 30 September 2002

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**	121,255,466

* 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.

Restrictions on the acquisition of NZOG Shares

As a New Zealand incorporated company, NZOG is not subject to Chapters 6, 6A, 6B and 6C of the Australian Corporations Act dealing with the acquisition of shares.

NZOG is a "code company" under the New Zealand Takeovers Act and therefore subject to the provision of the Takeover Code regulating the acquisition of shareholdings of 20% or more in the company. The New Zealand Overseas Investment Act and the Regulations made under that Act may also apply to the acquisition of 25% or more of NZOG shares by persons or companies that are not resident in New Zealand.

Corporate Directory

Directors

R A Radford	ACA, NZ, executive chairman and managing director
R F Meyer	ONZM, BE, PhD, DistFIPENZ, deputy chairman
P G Foley	BCA, LLB
S J Rawson	BSc, MSc

Management

R A Radford	chief executive
E R Matthews	PhD, MSc, BSc, exploration manager
G A Ward	BBS, CA (NZ), finance manager
B W Roulston	ACA, FCIS, company secretary

Registered and Head Office

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

Sydney Branch Office

3rd Floor
76 Berry Street
North Sydney, NSW 2060
Telephone: 61 2 9957 2177
Facsimile: 61 2 9925 0564

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) or (02) 9957 2177 (within Australia)

Website: www.nzo.co.nz

E-mail enquiries: enquiries@nzog.net

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

New Zealand Oil & Gas Limited

website: www.nzo.co.nz