



NEW ZEALAND OIL & GAS
Annual Report **2001**

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ANNUAL GENERAL MEETING

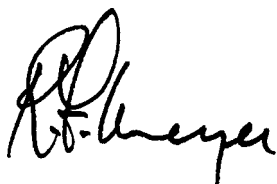
The 2001 Annual General Meeting of New Zealand Oil & Gas Limited will be held at the Crowne Plaza Hotel, Elliott Rooms, 128 Albert Street, Auckland on Friday, 30 November 2001. The meeting will commence at 10.00am.

THE COMPANY

New Zealand Oil & Gas is a petroleum exploration and production company which operates in New Zealand and Australia. Its production interests are in Taranaki, and (through 57.8% owned subsidiary, Pan Pacific Petroleum NL) in the Carnarvon Basin, Australia. New Zealand Oil & Gas, through its subsidiary Pike River Coal Company Limited, has a coking coal deposit in Westland, New Zealand.

2001 ANNUAL REPORT

The 2001 annual report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.



RF Meyer
Director
9 October 2001



RA Radford
Director



CHAIRMAN'S REPORT

Dear Investor,

During the financial year ended 30 June 2001, New Zealand Oil & Gas benefited from increased oil revenues from its Ngatoro field. Overall, revenues of \$25.7 million were 41% up on the prior financial year, reflecting higher oil prices and increased gas sales.

These increased revenues from production resulted in higher cash reserves at year-end, of \$12.8 million on a consolidated basis.

Operations overall produced a surplus of \$1.2 million, after absorbing write-downs of exploration (\$2.2 million – primarily related to Western Australia) and investments (\$2 million). Adjustments for minority interests and taxation in subsidiary Pan Pacific Petroleum NL increased the end result to \$2.1 million.

Drilling activity during the year was limited to the Tusk wells in Western Australia, which found oil but unfortunately not in economic quantities. Closer to home, expectations earlier this year of a consortium approach to bring a semi-submersible drilling unit into New Zealand waters have not materialised, with some companies pulling out, while others have delayed their plans. This means that the last offshore well drilled by any party in New Zealand was NZOG's own Hochstetter well, in February last year.

Notwithstanding the dearth of drilling activity during the past twelve months, substantial other exploration work was carried out by the company, which has set the scene for a resumption of exploration drilling in the 2002 calendar year.

Firstly, NZOG has again proposed to its co-venturers the drilling of the Tabla prospect within the Ngatoro production licence. Secondly, the high-potential Opito prospect will be drilled as soon as additional seismic, currently in train, has been evaluated. The first quarter of 2002 is when investors can expect these two prospects to be drilled.

The timing for Tui is less certain, although it is likely that a suitable rig will be available in New Zealand by around March of next year.

The company's Pike River coalfield continues towards a development decision. The key element at this point is to obtain access to the mine through a modest area of conservation land. The development proposal is environmentally sound and deserves support.

I note that in May 2001, special general meetings of shareholders and option holders overwhelmingly approved the extension of the listed options term to 30 June 2002.

Drilling of Opito will be an important test of a major exploration prospect. A sizeable discovery at Opito or a decision to develop the Pike River coalfield may deliver substantial value to investors in the near term.

R A Radford

Chairman

9 October 2001



ACTIVITIES REPORT – NEW ZEALAND

Taranaki Basin exploration

The Taranaki Basin remains NZOG's sole focus in the search for additional reserves of petroleum within New Zealand. The company's exploration permits encompass the range of prospect types within the basin, namely:

- Kapuni formation structures: Tui (PEP38460) and Stent and Marshall (PMP38146)
- Eastern margin thrust belt: Opito (PEP38729)
- Turbidite sands prospects: Tabla (PML38148), Rho (PEP38472) and Tui (PEP38460)

The Kapuni reservoirs are present at Maui, Kupe and the Kapuni field. These are large, simple structures, which contain around 70% of the oil and condensate discovered in the Taranaki basin to date. NZOG's prime Kapuni sands prospect is Tui, which is a dip closure of some 50 square kilometres in the Kapuni 'D' sands.

The thrust belt features on the eastern margin of the basin can form traps for oil and gas in various ways, depending on the juxtaposition of reservoir rocks and sealing lithologies. Approximately 20% of the Taranaki basin's liquid hydrocarbon reserves have been sourced from this geological setting. Opito is in the northern part of the thrust belt where the best reservoir system in the basin, the Kapuni beach sand trend, is truncated by the eastern margin overthrust.

Turbidites, fine-grained sandstones, often form stratigraphic traps and are widespread in the Taranaki basin above the deeper Kapuni targets. NZOG's Tui prospect includes this type of 'play' at the Miocene level, some 1000 metres above the Kapuni D sands target. The Tabla and Rho prospects are also of this type.

Ngatoro oil field

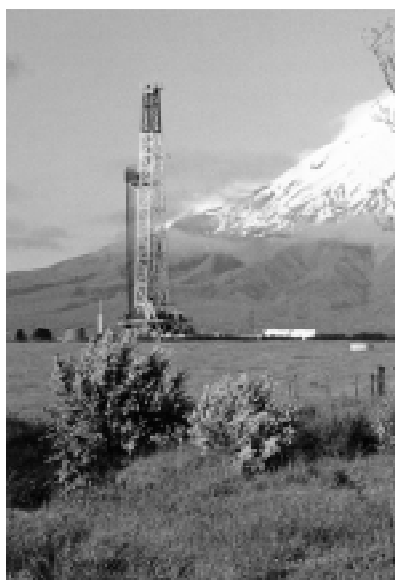
The Ngatoro field is located near the township of Inglewood in Taranaki. The field currently produces from six oil wells and one gas well. NZOG is operator and owns 35.4% of the project.

Operating costs were kept under tight control during the year, at NZ\$5 per barrel of oil produced (roughly equivalent to US\$2 at current exchange rates). While NZOG's share of field output for the year of 124,000 barrels was similar to the prior year 132,000 barrels, higher oil prices maintained operating cash flow, which for the financial year to 30 June 2001 was \$6.0m (net of royalties) compared to \$4.9m in the prior year.

Towards the end of the year a successful small-scale fracture of the reservoir accessed by the Ngatoro 7 well increased field production from 850 to 1250 barrels per day (gross), a rate not seen since 1998. A further fracture treatment in the Ngatoro 1 well, is planned for the near future. Planning for the proposed Ngatoro waterflood project moved up a gear following approval to commence detailed design. The waterflood project has the potential to maintain production rates and increase ultimate field recovery by an additional 1.8 million barrels. During the year, the Ngatoro field produced its 3 millionth barrel of oil (gross).

A successful oil discovery, Goldie-1 was drilled during the year by a third party on a sole risk basis. NZOG chose not to participate in the Goldie well, and has not exercised its right to buy into the discovery as returns to the company would likely be some years away.

Subsequent to the re-assessment of exploration prospects in the licence area, NZOG again proposed to co-venturers the drilling of the Tabla prospect. Tabla has seismic character closely analogous to the Ngatoro oil



wells and total potential reserves of some 1.5 million barrels of oil from two Mt Messenger sands. Drilling is likely to occur during the first half of 2002, once the ongoing ownership of Shell's interest in the field is settled.

Opito prospect

Opito is a potentially large onshore prospect in NZOG's North Taranaki permit PEP38729. It is the updip culmination of the Kapuni beach sands fairway, sealed beneath the eastern margin overthrust where older rocks have been pushed over the top of the target sands. The primary target of the well is the Kapuni 'C' sand, which can be traced from the Tui-Maui area. Deeper potential also exists within the Kapuni D sand and older Cretaceous rocks beneath the overthrust.

Twenty-five kilometres of seismic have been recorded over the Opito area to outline the prospect, and a further 39km of seismic is being acquired to optimally locate the well. Results from this survey will enable drilling in the first quarter of 2002.

During the year, an agreement was reached with the adjoining permit holder (Pacific Tiger) to allow drilling of their Ngarupupu-1 exploration well from within NZOG's PEP38729 into the adjacent PEP38463. The well will be deviated to reach the objective Kapuni C sands on the flank of the Opito prospect. NZOG will receive data obtained from Ngarupupu-1, which is expected to spud during the 4th quarter 2001.

NZOG's Opito prospect has potential reserves in the C sands of 80 million barrels of oil. The C sands, which provide reservoir in the Pohokura and Maui fields, are present in Opito at approximately 2400 metres.

Tui prospect

Over the last year, data from the Hochstetter well, drilled in PEP38460 in February 2000, has been applied to a thorough assessment of the Tui prospect, resulting in a more detailed analysis of the five previously identified sands within the Kapuni formation D sands.

The main findings from this work are:

- the D sands oil that is produced from the offshore Maui field is a remnant of a much larger oil pool that once extended over both Tui and Maui, before Maui was tilted and fractured in the geologically recent past
- advanced analysis of the seismic data over Tui has confirmed the presence of five stacked dip clo-

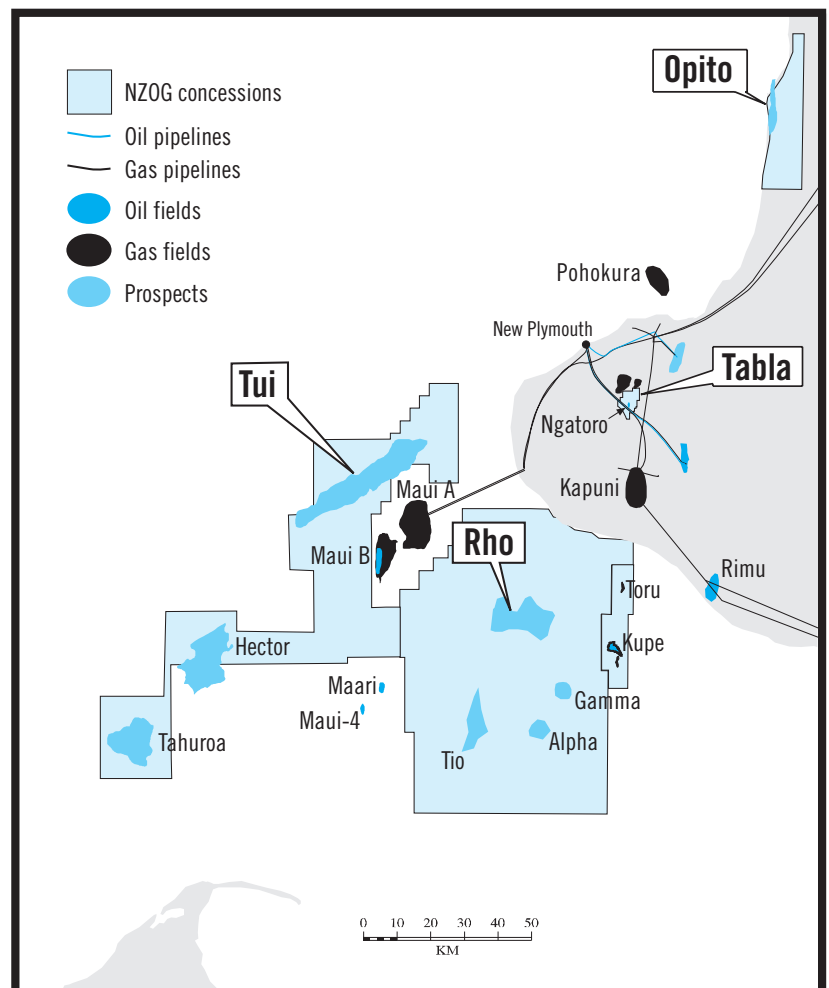
tures in the D sands, each of 50-60 square kilometres, with individual potential of 200-300 million barrels and with cumulative potential of 700 million barrels

- detailed analysis of the seismic over Tui indicates that the observed response is consistent with hydrocarbon charge
- in addition to the dip closures in the D sands, there is additional major stratigraphic potential at this level, as well as shallower Moki (400 million barrels) and deeper 'F' sands (50 million barrels)

The Tui-1 well is planned to drill to 4000m and test all three objectives, D and F sands and the Moki formation. Introduction of additional parties to the joint venture to assist funding, is a pre-requisite to drilling this exciting prospect.

PEP38472

This permit awarded in February 2001 is a 50:50 joint venture between NZOG and the Austrian company OMV. On behalf of the joint venture, OMV is currently re-evaluating several prospects at both Kapuni and



Moki levels, which are evident from existing seismic data over the area. The first phase is to reprocess the relevant existing data to achieve better structural definition of these prospects, and to identify which of these areas exhibit seismic “signatures” indicative of hydrocarbons.

Of the prospects originally identified, the Rho prospect appears to be the most robust. Seismic data over the prospect suggest that it may be Miocene turbidite sand, similar to Maari to the southwest, or to Ngatoro in the onshore Taranaki.

Pike River coalfield

Pike River coalfield was moved significantly closer to development during the year, with a key access agreement secured, coal marketing assisted by higher coal prices and arrangements for transport and mining progressed. In July 2001, the owner of the mining licence, subsidiary Pike River Coal Company Limited (PRCC), raised approximately \$1.4 million through an issue of shares to private investors to fund ongoing activities.

Also in July 2001, access through 21 hectares of land was granted by a government body, Timberlands West Coast. A remaining key element is to obtain access through a further 9 hectares of land that is administered by the Department of Conservation.

PRCC and NZOG have confirmed the preferred long-term transport option of trucking coal to the Port of Greymouth and then barging to Shakespeare Bay at Picton for export. Evaluation of a mining contractor to design, build and operate the Pike River mine, is continuing.

Strong international demand for ‘semi-hard coking coal’ – the same class as Pike River, was demon-

strated by price rises of up to 20% this year, assisting coal marketing efforts.

The above mentioned private share placement gives an implied value to PRCC of approximately \$31 million. NZOG currently holds 22.5 million shares in PRCC, a 72% equity.

Kupe field

Further changes in the Kupe joint venture ownership have occurred – Genesis Energy now holds a 50% interest and Shell have undertaken to the Commerce Commission to sell their 22% interest, purchased as part of the Fletcher Challenge Energy acquisition.

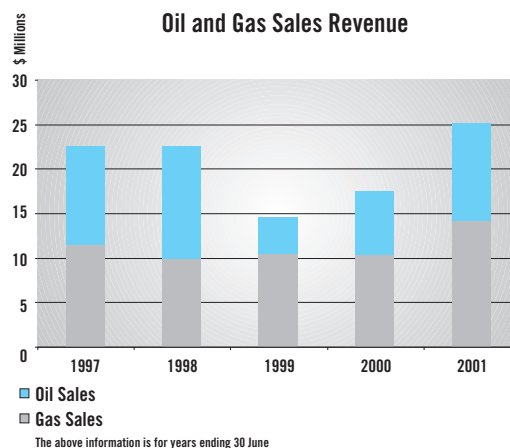
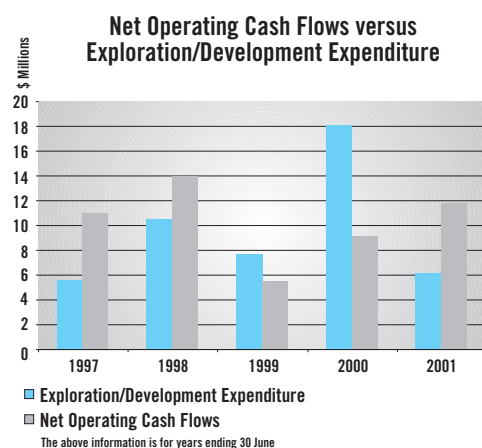
Whilst NZOG believes that the Kupe field can be developed over the next few years as a liquids based project, and the Company’s investment in this venture is sound, meaningful activity towards a development is unlikely until the ownership issues are finally resolved and a clear direction for the Kupe joint venture has been established by the reconstituted joint venture.

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.



NZOG's Australian activities are conducted by 58%-owned listed subsidiary Pan Pacific Petroleum NL.

Production

Tubridgi gas project

The Tubridgi project has two major components: gas production and gas purchase and resale from the offshore Griffin field. All project gas is transported through either of two 90 kilometre pipelines, which link up with the Dampier – Bunbury pipeline. Gas production from the onshore Tubridgi field is likely to continue for a further 2-3 years, while gas from Griffin is likely to extend to at least 2010. During the year, the Tubridgi project contributed NZ\$5.4 million (A\$4.2 million) in net operating cash flow to the group, which is the same as the prior year.

Chervil

At the Chervil oil field, production rates experienced remarkably little decline, indicating more oil than previously recognised remains to be produced. The availability of new 3D seismic data later in 2001 will help identify where undrained oil may be accessed by further wells. Chervil produced 23,000 barrels of oil for the company in the year to 30 June 2001. Actual oil sales, comprising mainly oil inventory held at the beginning of the year, were 34,000 barrels contributing NZ\$1.72 million (A\$1.36 million) to net operating cash flow.

Exploration

In September 2000 the Tusk prospect was drilled, discovering oil within the Athol and Mungaroo formations. Results indicated that the discovery was potentially economic to develop, and accordingly Tusk-2 was drilled in January 2001 to define the lateral extent of the Athol formation pool and to establish the production capacity of this previously untested formation. While the appraisal well succeeded in proving the expected size of the pool, it failed to establish economic oil flow rates and the NZOG group's costs of NZ\$1.3 million (A\$1.0 million) for the two Tusk wells were written off during the year.

An extensive 3D seismic survey was completed in September 2001 over the Chervil licence and adjacent permit TP7.

A number of prospects previously planned for drilling on the basis of 2D seismic (including Immortelle, Cara and South Pepper Deep) were held back, pending re-assessment using the 3D data, which will be ready for interpretation in November 2001.

The objective of the 3D seismic survey is to better define oil prospects, particularly at the lower Barrow Group Malouet level. One of these prospects, South Pepper Deep, has been recognised (using the 2D seismic) as having potential of around 100 million barrels, in the area updip of South Pepper-1. If enhanced by the new data, the prospect could be drilled in first half of 2002.

FINANCIAL INFORMATION

Financial result

A profit from production operations of \$7.5 million was made for the year compared to a profit of \$5 million in the previous year. After providing for exploration costs in relation to its listed subsidiary Pan Pacific of \$2.2 million and a writedown of investments of \$2 million, the result for NZOG was an operating profit after income tax and adjustments for minority interests of \$2.1 million, compared to a loss of \$10.7 million last year.

Total revenues were \$25.7 million compared to last

year's \$18.1 million. Ngatoro oil revenues were up 34% and the remaining increase was attributable to Pan Pacific, which enjoyed higher gas production and sales.

Cash on hand at 30 June 2001 was \$12.8 million (including NZ\$5.2 million held by Pan Pacific), an increase of \$6 million on last year. During the year \$6 million was spent on investing activities, all of which was exploration expenditure. This was funded by operating activities which net of administration and corporate costs, generated \$11.7 million.

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2001

| | Note | Consolidated | | Parent Company | |
|---|-------|---------------|-----------------|----------------|-----------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Total revenue | 2(i) | 25,694 | 18,171 | 287 | 246 |
| Operating surplus/(deficit) before taxation | 2(ii) | 1,186 | (14,084) | (3,121) | (11,315) |
| Taxation | 16 | 701 | (1) | – | – |
| Operating surplus/(deficit) after taxation | | 1,887 | (14,085) | (3,121) | (11,315) |
| Minority interest in result for the year | 3 | 211 | 3,337 | – | – |
| Net surplus/(deficit) for the year | | 2,098 | (10,748) | (3,121) | (11,315) |

STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2001

| | Note | Consolidated | | Parent Company | |
|--|--------|---------------|-----------------|----------------|-----------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Equity at beginning of year | | 49,574 | 59,131 | 6,663 | 17,978 |
| Net surplus/(deficit) for the year | 4 | 2,098 | (10,748) | (3,121) | (11,315) |
| Movement in foreign currency translation reserve | 4 | (343) | 274 | – | – |
| Total recognised revenues and expenses | | 1,755 | (10,474) | (3,121) | (11,315) |
| Movement in minority interest during the year | | (228) | (1,263) | – | – |
| Treasury stock reissued | | – | 3,680 | – | – |
| (Decrease) in asset revaluation reserve | 4 | – | (1,500) | – | – |
| Repurchase and cancellation of treasury stock | 4 | – | – | (6,900) | – |
| Equity/(deficit) at end of year | 4(iii) | 51,101 | 49,574 | (3,358) | 6,663 |

The notes on pages 10 to 27 form part of and are to be read in conjunction with these financial statements.

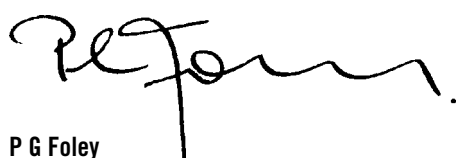
STATEMENT OF FINANCIAL POSITION

as at 30 June 2001

| | Note | Consolidated | | Parent Company | |
|---|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Current Assets | | | | | |
| Short term securities and cash deposits | 5 | 12,776 | 6,770 | 9,469 | 3,401 |
| Receivables | 6 | 2,760 | 2,630 | 865 | 226 |
| Inventories | 7 | 1,782 | 2,301 | – | – |
| Investments | 8 | 522 | 2,514 | 522 | 2,514 |
| Total Current Assets | | 17,840 | 14,215 | 10,856 | 6,141 |
| Non-Current Assets | | | | | |
| Receivables | 6 | 107 | 123 | 651 | 1,440 |
| Investments | 8 | 4,479 | 4,479 | 58,183 | 65,294 |
| Fixed assets | 9 | 3,018 | 5,692 | – | – |
| Petroleum and coal interests | 11 | 33,146 | 32,753 | – | – |
| Other | 12 | 1,083 | 1,402 | – | – |
| Total Non-Current Assets | | 41,833 | 44,449 | 58,834 | 66,734 |
| Total Assets | | 59,673 | 58,664 | 69,690 | 72,875 |
| Current Liabilities | | | | | |
| | 13 | 5,422 | 5,208 | 476 | 332 |
| Non-Current Liabilities | | | | | |
| | 14 | 3,150 | 3,882 | 72,572 | 65,880 |
| Total Liabilities | | 8,572 | 9,090 | 73,048 | 66,212 |
| NET ASSETS/(LIABILITIES) | | 51,101 | 49,574 | (3,358) | 6,663 |
| EQUITY/(DEFICIT) | | | | | |
| Attributable to Shareholders of the Company | 4 | 43,835 | 42,080 | (3,358) | 6,663 |
| Attributable to Minority Shareholders of the Group | 3 | 7,266 | 7,494 | – | – |
| TOTAL SHAREHOLDERS' EQUITY/(DEFICIT) | | 51,101 | 49,574 | (3,358) | 6,663 |

The notes on pages 10 to 27 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors



P G Foley
Director
13 September 2001



R A Radford
Director
13 September 2001

STATEMENT OF CASH FLOWS

for the year ended 30 June 2001

| | Consolidated | | Parent Company | |
|---|----------------|-----------------|----------------|----------------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$000 | \$000 | \$000 | \$000 |
| Cash Flows From Operating Activities | | | | |
| <i>Cash was received from:</i> | | | | |
| Interest received | 465 | 477 | 287 | 157 |
| Petroleum sales | 24,603 | 17,271 | – | – |
| | 25,068 | 17,748 | 287 | 157 |
| <i>Cash was paid for:</i> | | | | |
| Production expenses | (10,531) | (6,132) | – | – |
| Other payments to suppliers and employees | (2,837) | (2,542) | (1,662) | (1,774) |
| | (13,368) | (8,674) | (1,662) | (1,774) |
| Net cash flows from operating activities | 11,700 | 9,074 | (1,375) | (1,617) |
| Cash Flows From Investing Activities | | | | |
| <i>Cash was received from:</i> | | | | |
| Repayment of advances from subsidiary and associate companies | 12 | 994 | 7,490 | 4,478 |
| Receipts from sale of shares in listed company | – | 8 | – | 8 |
| Receipts from sale of fixed asset | 33 | – | – | – |
| | 45 | 1,002 | 7,490 | 4,486 |
| <i>Cash was paid for:</i> | | | | |
| Advances to subsidiary and associate companies | – | – | – | (2,252) |
| Petroleum and coal expenditures | (6,092) | (18,063) | – | – |
| Purchase of production assets | – | (26) | – | – |
| Purchase of other fixed assets | – | (29) | – | – |
| | (6,092) | (18,118) | – | (2,252) |
| Net cash flows from investing activities | (6,047) | (17,116) | 7,490 | 2,234 |
| Cash Flows From Financing Activities | | | | |
| <i>Cash was received from:</i> | | | | |
| Issue of shares in subsidiary | 234 | 375 | – | – |
| Realisation of security deposits | 294 | 113 | – | – |
| Treasury stock reissued | – | 3,680 | – | – |
| | 528 | 4,168 | – | – |

The notes on pages 10 to 27 form part of and are to be read in conjunction with these financial statements.

STATEMENT OF CASH FLOWS (continued)

| | Note | Consolidated | | Parent Company | |
|---|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| <i>Cash was paid for:</i> | | | | | |
| Dividend payments | | (1) | (4) | (1) | (4) |
| | | (1) | (4) | (1) | (4) |
| Net cash flows from financing activities | | 527 | 4,164 | (1) | (4) |
| Net increase/(decrease) in cash | | 6,180 | (3,878) | 6,114 | 613 |
| Cash at beginning of year | | 6,770 | 10,318 | 3,401 | 2,706 |
| Effect of exchange rate changes on cash | | (174) | 330 | (46) | 82 |
| CASH AT END OF YEAR | | 12,776 | 6,770 | 9,469 | 3,401 |
| Made up as follows: | | | | | |
| Short term securities and cash deposits | 5 | 12,776 | 6,770 | 9,469 | 3,401 |
| RECONCILIATION OF OPERATING SURPLUS/(DEFICIT) AFTER TAXATION WITH NET CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Operating surplus/(deficit) after taxation | | 1,887 | (14,085) | (3,121) | (11,315) |
| <i>Adjust for non-cash items in operating surplus/(deficit):</i> | | | | | |
| Amortisation of development expenditure over production | | 3,324 | 3,536 | – | – |
| Increase in provisions | | 176 | 341 | – | 8 |
| Decrease in value of subsidiary and associate company shares and advances | | – | – | – | 9,724 |
| Depreciation | | 2,433 | 2,689 | – | – |
| Deferred income tax liability | | (798) | 6 | – | – |
| Future income tax benefit | | (15) | (5) | – | – |
| (Gain) on sale of investment | | – | (2) | – | (2) |
| Loss on sale of plant and equipment | | 4 | – | – | – |
| Writeoff of petroleum and coal expenditure | | 2,242 | 17,231 | – | – |
| Writedown of investment in listed resource company | | 1,992 | – | 1,992 | – |
| Loss on cancellation of shares | | – | – | 211 | – |
| <i>Changes in assets and liabilities:</i> | | | | | |
| (Increase)/decrease in debtors | | (608) | (646) | (638) | 34 |
| (Increase)/decrease in field operation consumables and finished goods | | (117) | (176) | – | – |
| Increase/(decrease) in creditors | | 1,382 | 365 | 145 | 25 |
| Increase/(decrease) in provisions | | 20 | – | (10) | (9) |
| Increase/(decrease) in other assets | | (222) | – | – | – |
| <i>Items included in other cash flow categories:</i> | | | | | |
| Exchange losses/(gains) | | – | (180) | 46 | (82) |
| Net cash flows from operating activities | | 11,700 | 9,074 | (1,375) | (1,617) |

The notes on pages 10 to 27 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 5 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 expensed in the statement of financial performance in proportion to production, when its extent can be reasonably estimated.

Joint Ventures

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

Petroleum Sales Revenue

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

Unearned Income

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

Administration and Operating Expenses

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

Trade 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 5 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.

Current Investments in Listed Resource Companies

Short term 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 has independent foreign operations in Australia through Pan Pacific Petroleum NL ('Pan Pacific'). The statement of financial position of independent foreign operations is translated at the closing rate at balance date. The statement of financial performance and cash flows of independent foreign operations is translated at the average rate for the year. 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 is taken to the foreign currency translation reserve.

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

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

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

| | Note | Consolidated | | Parent Company | |
|---|------|---------------|---------------|----------------|------------|
| | | 2001 | 2000 | 2001 | 2000 |
| | | \$000 | \$000 | \$000 | \$000 |
| Operating surplus/(deficit) before taxation has been determined after | | | | | |
| (i) Crediting as income: | | | | | |
| Sales revenue | | | | | |
| Petroleum sales | 19 | 25,064 | 17,503 | – | – |
| Other revenue | | | | | |
| Interest received from: | | | | | |
| – Other short term securities | | 490 | 446 | 287 | 156 |
| – Associate and other companies | | 48 | 14 | – | – |
| Exchange gains | | – | 200 | – | 82 |
| Other income | | 92 | 8 | – | 8 |
| Total revenue | | 25,694 | 18,171 | 287 | 246 |

Petroleum sales revenue of \$25,064,000 (2000: \$17,503,000) represents the group's share of revenue from the Chervil oil field (offshore Western Australia), the Tubridgi gas field (onshore Western Australia) and the Ngatoro oil field (onshore Taranaki).

(ii) Charging as expenses:

| | | | | | |
|---|--|--------|--------|-------|-------|
| Amortisation of development expenditure over production | | 3,324 | 3,536 | – | – |
| Decrease in value of subsidiary and associate company shares and advances | | – | – | – | 9,724 |
| Directors' fees | | 154 | 90 | 120 | 55 |
| Exchange losses | | 27 | – | 46 | – |
| Fees paid to parent company auditors | | 63 | 104 | 61 | 57 |
| Fees paid to parent company auditors for other services | | 17 | 118 | 17 | 46 |
| Fixed asset depreciation | | 2,433 | 2,689 | – | – |
| Petroleum and coal exploration expenditure written off or down to valuation | | 2,242 | 17,231 | – | – |
| Provision for restoration | | 176 | 239 | – | – |
| Writedown of investment in listed resource company | | 1,992 | – | 1,992 | – |
| Loss on cancellation of shares | | – | – | 211 | – |
| Operating expenditure | | 11,793 | 6,220 | – | – |

3. MINORITY INTEREST

The group operating surplus/(deficit) after taxation (prior to elimination of minority interests) of \$1,887,000 surplus (2000: \$14,085,000 deficit) includes Pan Pacific's deficit for the year of \$501,000 (2000: \$7,919,000 deficit) and Pike River Coal Company's ('PRCC') deficit of \$13,000 (2000: \$166,000) which are consolidated in full in the statement of financial performance. The minority interest, or non-NZOG share of Pan Pacific's and PRCC's operating deficits is removed from the net surplus/(deficit) for the year attributable to the group.

4. SHAREHOLDERS' EQUITY

| | 2001 Number of Shares Note | Consolidated | | | Parent Company | | | 2000 Number of Shares 000s | 2000 \$000s |
|--|-------------------------------------|--------------|---------------|----------|----------------|----------|----------------|-------------------------------------|----------------|
| | | 2001 | 2000 | 2000 | 2001 | 2001 | 2000 | | |
| | | 000s | \$000s | 000s | 000s | \$000s | \$000s | | |
| Reported paid in share capital | | | | | | | | | |
| Paid in share capital – opening balance | | 137,450 | 82,240 | 137,450 | 82,240 | 137,450 | 82,240 | 137,450 | 82,240 |
| Treasury stock cancelled during year | (i) | (17,249) | (10,320) | – | – | (17,249) | (10,320) | – | – |
| | | 120,201 | 71,920 | 137,450 | 82,240 | 120,201 | 71,920 | 137,450 | 82,240 |
| Treasury share elimination | (ii) | (4,669) | (2,794) | (4,669) | (2,794) | (4,669) | (2,794) | (4,669) | (2,794) |
| Treasury stock elimination | | – | – | (17,249) | (10,320) | – | – | – | – |
| Closing balance | | 115,532 | 69,126 | 115,532 | 69,126 | 115,532 | 69,126 | 132,781 | 79,446 |
| Reserves | | | | | | | | | |
| Retained (deficit) reserves brought forward | | | (29,955) | | (17,352) | | (74,334) | | (63,019) |
| Net surplus/(deficit) for year | | | 2,098 | | (10,748) | | (3,121) | | (11,315) |
| Adjustment to accumulated losses | | | | | | | | | |
| on treasury stock reissued | | | – | | (1,855) | | – | | – |
| Elimination of accumulated losses | | | | | | | | | |
| on treasury stock cancelled during year | | | – | | – | | 3,420 | | – |
| Retained (deficit) reserves carried forward | | | (27,857) | | (29,955) | | (74,035) | | (74,334) |
| Share revaluation reserve: | | | | | | | | | |
| Opening and closing balance | | | – | | – | | 1,551 | | 1,551 |
| Asset revaluation reserve: | | | | | | | | | |
| Opening balance | | | 2,891 | | 4,391 | | – | | – |
| Revaluation of coal interests | | | – | | (1,500) | | – | | – |
| Closing balance | | | 2,891 | | 2,891 | | – | | – |
| Foreign currency translation reserve: | | | | | | | | | |
| Opening balance | | | 18 | | (256) | | – | | – |
| Effect of exchange rate change | | | | | | | | | |
| on opening balance of Australian subsidiary | | | (343) | | 274 | | – | | – |
| Closing balance | | | (325) | | 18 | | – | | – |
| Total shareholders' equity | (iii) | | 43,835 | | 42,080 | | (3,358) | | 6,663 |

Notes:

- (i) The company cancelled 17,249,000 NZOG treasury stock on 29 June 2001, reducing the company's issued capital to 120,201,271. Due to the NZOG treasury stock being accounted for using the 'treasury stock' method this transaction had no economic effect on the consolidated financial statements.
- (ii) The company continues to hold 4,669,200 treasury shares, which are accounted for using the 'treasury stock' method.
- (iii) The parent company reported a shareholder equity deficit at 30 June 2001 of \$3,358,000 (2000: \$6,663,000 surplus). The equity deficit has arisen largely due to cancellation of treasury stock during the year. If the parent company revalued its investments in subsidiaries, which are presently carried at the lower of cost or estimated recoverable amount, the parent company's financial position would be at least equivalent to the consolidated financial position. However, the cost of undertaking such a revaluation would be substantial and time-consuming compared to the limited benefit to investors. The directors have therefore not undertaken such a revaluation.
- (iv) A total of 80,204,246 NZOG options are on issue at 30 June 2001 (2000: 80,204,246). Each NZOG option entitles the holder to subscribe

NOTES TO THE FINANCIAL STATEMENTS (continued)

for one share in the capital of the company at a price of \$0.75, exercisable by 30 June 2002. The option exercise price was increased from \$0.70 to \$0.75 and the expiry date extended from 31 October 2001 to 30 June 2002 as approved by special meetings of share and optionholders on 24 May 2001. Included within total options on issue at 30 June 2001 are 20,105,262 options held by Oil Holdings Limited (2000: 20,105,262 options).

- (v) Each issued share is entitled to one vote.

5. SHORT TERM SECURITIES AND CASH DEPOSITS

| | Note | Consolidated | | Parent Company | |
|-----------------|------|---------------|--------------|----------------|--------------|
| | | 2001 | 2000 | 2001 | 2000 |
| | | \$000 | \$000 | \$000 | \$000 |
| Bank | | 813 | 2,490 | 2,534 | 691 |
| Cash on deposit | | 11,963 | 4,280 | 6,935 | 2,710 |
| | | <u>12,776</u> | <u>6,770</u> | <u>9,469</u> | <u>3,401</u> |

6. RECEIVABLES

Current receivables

| | | | | | |
|----------------------|--|--------------|--------------|------------|------------|
| Trade debtors | | 2,302 | 2,406 | 592 | 10 |
| Interest receivable | | 72 | 8 | 57 | – |
| Advance to associate | | 216 | 216 | 216 | 216 |
| Tax refund | | 170 | – | – | – |
| | | <u>2,760</u> | <u>2,630</u> | <u>865</u> | <u>226</u> |

Non-current receivables

| | | | | | |
|--------------------------|-----|------------|------------|------------|--------------|
| Advances to subsidiaries | (i) | – | – | 651 | 1,440 |
| Advances to associates | | 107 | 123 | – | – |
| | | <u>107</u> | <u>123</u> | <u>651</u> | <u>1,440</u> |

Notes:

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

7. INVENTORIES

| | | | | | |
|-----------------------------|--|--------------|--------------|----------|----------|
| Field operation consumables | | 870 | 924 | – | – |
| Finished goods (oil stock) | | 912 | 1,377 | – | – |
| | | <u>1,782</u> | <u>2,301</u> | <u>–</u> | <u>–</u> |

8. INVESTMENTS

| | Consolidated | | Parent Company | |
|--|---------------|---------------|----------------|---------------|
| | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Current investments | | | | |
| Shares in listed resource companies | 522 | 2,514 | 522 | 2,514 |
| | <u>522</u> | <u>2,514</u> | <u>522</u> | <u>2,514</u> |
| Non-current investments | | | | |
| Investment in subsidiaries | – | – | 48,472 | 55,583 |
| Investment in associates | | | | |
| - listed shares | – | – | 6,112 | 6,112 |
| - unlisted shares | 2,719 | 2,719 | 2,719 | 2,719 |
| Investments in unlisted resource companies | 1,760 | 1,760 | 880 | 880 |
| | <u>4,479</u> | <u>4,479</u> | <u>58,183</u> | <u>65,294</u> |

Notes:

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

9. FIXED ASSETS

(i) Production assets

| | | | | |
|--------------------------|--------------|--------------|----------|----------|
| Cost | 23,638 | 24,441 | – | – |
| Accumulated depreciation | (20,786) | (18,961) | – | – |
| Book value | <u>2,852</u> | <u>5,480</u> | <u>–</u> | <u>–</u> |

(ii) Other fixed assets

| | | | | |
|-----------------------------------|--------------|--------------|----------|----------|
| Cost | 583 | 607 | – | – |
| Accumulated depreciation | (417) | (395) | – | – |
| Book value | <u>166</u> | <u>212</u> | <u>–</u> | <u>–</u> |
| Book value of fixed assets | <u>3,018</u> | <u>5,692</u> | <u>–</u> | <u>–</u> |

10. JOINT VENTURES

NZOG group interests held at balance date, 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:

| Licence (Joint Ventures) | Consolidated | | Parent Company | |
|--------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| | 2001 Percentage Interest % | 2000 Percentage Interest % | 2001 Percentage Interest % | 2000 Percentage Interest % |
| PML 38146 (Kupe)* | 16.5 | 16.5 | – | – |
| PMP 38148 (Ngatoro)* | 35.4 | 35.4 | – | – |
| TL2 (Chervil)* | 23.2 | 23.2 | – | – |
| L9 (Tubridgi) | 43.0 | 43.0 | – | – |
| PEP 38460 (West Maui)* | 80.0 | 80.0 | – | – |
| PEP 38472 (West Kupe)* | 100.0 | – | – | – |

* The financial statements of these joint ventures are unaudited.

Subsequent to balance date the consolidated entity assigned a 50% interest in PEP 38472 to OMV Group.

The contribution made by joint ventures to group results was to increase revenues by \$25,064,000 (2000: \$17,503,000) and expenses by \$19,792,000 (2000: \$29,688,000).

The parent company has no direct interest in any joint venture.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

| | Consolidated | | Parent Company | |
|--|---------------|---------------|----------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$000 | \$000 | \$000 | \$000 |
| Current Assets | | | | |
| Short term securities and cash deposits | 150 | 1,730 | – | – |
| Trade debtors | 14 | 83 | – | – |
| Field operation consumables | 870 | 924 | – | – |
| Finished goods (oil stock) | 912 | 1,377 | – | – |
| Non-Current Assets | | | | |
| Fixed assets | 2,852 | 5,480 | – | – |
| Petroleum interests | 33,146 | 32,753 | – | – |
| Total Assets | 37,944 | 42,347 | – | – |
| Current Liabilities | | | | |
| Creditors and borrowings | 1,185 | 1,780 | – | – |
| Provisions | 1,998 | 2,070 | – | – |
| Non-Current Liabilities | | | | |
| Provisions | 1,374 | 1,232 | – | – |
| Total Liabilities | 4,557 | 5,082 | – | – |
| Net Assets held in Joint Ventures | 33,387 | 37,265 | – | – |

11. PETROLEUM AND COAL INTERESTS

| Carrying Values | Consolidated | | Parent Company | |
|--|---------------|---------------|----------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$000 | \$000 | \$000 | \$000 |
| Petroleum production expenditure | 3,777 | 5,577 | – | – |
| Petroleum exploration and evaluation expenditure | | | | |
| Petroleum mining licence – Kupe | 12,352 | 12,352 | – | – |
| Petroleum prospecting licences | 8,274 | 7,175 | – | – |
| Coal exploration and evaluation expenditure | 8,743 | 7,649 | – | – |
| Total accumulated exploration and evaluation expenditure | 29,369 | 27,176 | – | – |
| Total accumulated expenditure | 33,146 | 32,753 | – | – |

| | Note | 2001 |
|--|----------|---------------|
| | | \$000 |
| a) Directors' Valuations | (i) (v) | |
| Petroleum production expenditure | (ii) | 15,292 |
| Petroleum exploration and evaluation expenditure | | |
| Petroleum mining licence – Kupe | (iii) | 12,352 |
| Petroleum prospecting licences | | 8,274 |
| Coal exploration and evaluation expenditure | (iv) (v) | 31,375 |
| Total | | <u>67,293</u> |

Notes:

- (i) Directors have carried out a valuation of production, development, exploration and evaluation assets, as at 30 June 2001, 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. In the case of assets of partly owned subsidiary Pan Pacific, directors

of the company have relied upon the valuations carried out by that company. 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) The directors' valuation for PRCC was determined by reference to a post balance date event – the issue of additional private equity in PRCC (note 23). The directors believe that the accumulated coal exploration and evaluation expenditure is recoverable through the PRCC project proceeding to development.
- (v) The directors' valuations are for the consolidated entity including minority interests.

b) Oil & Gas Reserves

| | Crude Oil & Natural Gas Liquids (Million Barrels) | | Natural Gas (Billion Cubic Feet) | |
|---------------------------------|---|------------|-------------------------------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| | Undeveloped | | | |
| NEW ZEALAND: | | | | |
| Proven and probable reserves | 5.1 | 5.1 | 43.5 | 44.3 |
| Developed | | | | |
| NEW ZEALAND: | | | | |
| Proven and probable reserves | 0.6 | 0.4 | 1.2 | 1.3 |
| AUSTRALIA: | | | | |
| Proven and probable reserves | – | – | 5.4 | 7.5 |
| Total Developed Reserves | 0.6 | 0.4 | 6.6 | 8.8 |

c) Coal Reserves

| | Coal (Million Tonnes) 2001 |
|---------------------------------|-------------------------------------|
| Undeveloped – Pike River | |
| Proved and probable reserves | <u>18.5</u> |

Notes:

- (i) Proven oil and gas reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions. Probable reserves are defined as those which have a better than 50% chance of being technically and economically producible.
- (ii) The group's interests in undeveloped proven and probable oil and gas reserves are in the Kupe field (offshore South Taranaki) and now include natural gas liquids (LPGs). Comparatives have been adjusted accordingly. The group's interests in developed proven and probable oil and gas reserves are in the Ngatoro oil field (onshore Taranaki) and the Tubridgi gas field (onshore Western Australia).

NOTES TO THE FINANCIAL STATEMENTS (continued)

- (iii) Coal reserves are the estimated quantities of coal which are expected with reasonable certainty to be recoverable based on a feasibility study (23 June 2000) 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.

12. OTHER NON-CURRENT ASSETS

| | Note | Consolidated | | Parent Company | |
|---------------------------|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Future income tax benefit | 16 | 1,012 | 1,032 | – | – |
| Security deposits | 20 | 71 | 370 | – | – |
| | | <u>1,083</u> | <u>1,402</u> | <u>–</u> | <u>–</u> |

Note:

The future income tax benefit arises solely from consolidation of Pan Pacific.

13. CURRENT LIABILITIES

| | Note | Consolidated | | Parent Company | |
|-----------------------|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Creditors | | 3,161 | 2,934 | 476 | 332 |
| Other provisions | | 263 | 204 | – | – |
| Restoration provision | (i) | 1,998 | 2,070 | – | – |
| | | <u>5,422</u> | <u>5,208</u> | <u>476</u> | <u>332</u> |

Note:

- (i) The restoration provision of \$1,998,000 (2000: \$2,070,000) relates to NZOG group's share of estimated costs for the rehabilitation of various production assets.

14. NON-CURRENT LIABILITIES

| | Note | Consolidated | | Parent Company | |
|---|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Provisions | (i) | 1,374 | 1,232 | – | 10 |
| Advances from wholly owned subsidiary companies to parent | (ii) | – | – | 72,572 | 65,870 |
| Deferred income tax liability | 16 | 1,776 | 2,650 | – | – |
| | | <u>3,150</u> | <u>3,882</u> | <u>72,572</u> | <u>65,880</u> |

Notes:

- (i) The provision of \$1,374,000 (2000: \$1,232,000) relates to NZOG group's share of estimated costs for the rehabilitation of various production assets.
- (ii) Inter-group advances are interest free. No repayment terms have been arranged.

15. FINANCIAL INSTRUMENTS

Foreign Exchange Risk

The group operates United States dollar bank accounts for oil sales proceeds.

The group has significant exploration and mining activities in Australia giving rise to Australian dollar currency risk. In particular the operations of subsidiary, Pan Pacific involve cash deposits, short-term securities, investment expenditures and revenues being denominated in Australian dollars.

Unhedged monetary assets of NZ\$7,411,000 (A\$5,970,000) are denominated in Australian dollars; NZ\$7,304,000 (A\$5,884,000) of this amount are current assets. Unhedged monetary liabilities of NZ\$2,473,000 (A\$1,992,000) are denominated in Australian dollars, all of which are current liabilities.

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 under a term contract.

Most gas sales from the Tubridgi field are to AlintaGas and Alcoa.

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.

Off Balance Sheet Financial Instruments

The company has entered into industry norm hedging arrangements to manage oil pricing risk, which at 30 June 2001 consisted of:

- a put option over 25,000 barrels of oil at US\$ 20/bbl.
- a zero cost collar over 15,000 barrels of oil with a floor of US\$ 20/bbl and a ceiling of US\$ 35/bbl.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

| | 2001 | 2001 | 2000 | 2000 |
|--|-----------------|-------|-----------------|-------|
| | Carrying | Fair | Carrying | Fair |
| | Value | Value | Value | Value |
| | \$000 | \$000 | \$000 | \$000 |
| Consolidated | | | | |
| Investments in listed resource companies | 522 | 522 | 2,514 | 2,179 |
| Security deposits | 71 | 71 | 370 | 370 |
| Investment in unlisted resource companies | 1,760 | 1,760 | 1,760 | 1,760 |
| Parent Company | | | | |
| Investments in listed resource companies | 522 | 522 | 2,514 | 2,179 |
| Investment in unlisted resource companies | 880 | 880 | 880 | 880 |
| Listed shares – market value at balance date | 6,112 | 6,866 | 6,112 | 5,577 |

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 | 2.9% to 6.4% |
| Security deposits | June 2002 | 5.86% |

All other financial instruments are non-interest bearing.

16. 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 2001 of \$46,409,000 (2000: \$47,340,000). 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 | |
|---|---------------------|----------|-----------------------|----------|
| | 2001 | 2000 | 2001 | 2000 |
| | \$000 | \$000 | \$000 | \$000 |
| i) Income tax expense | | | | |
| Operating surplus/(deficit) before taxation | 1,186 | (14,084) | (3,121) | (11,315) |
| Income tax expense/(benefit) at 33% | 391 | (4,648) | (1,030) | (3,734) |
| Adjusted for tax effect of: | | | | |
| Timing differences – New Zealand | (1,443) | 1,903 | 303 | 3,734 |
| Permanent differences – New Zealand | 657 | – | 727 | – |
| | (395) | (2,745) | – | – |

| | Note | Consolidated | | Parent Company | |
|--|------|---------------|---------------|----------------|---------------|
| | | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Consolidated from Pan Pacific: | | | | | |
| Net timing differences | | – | 2,798 | | |
| Permanent differences | | 1 | 14 | | |
| Benefit of tax losses of prior years recouped | | (277) | – | | |
| Difference in foreign tax rates | | (20) | 34 | | |
| Income tax (benefit)/expense on operating surplus before tax items | | (691) | 101 | | |
| Item of income tax relating to prior periods | | – | (100) | | |
| Restatement of deferred tax balance due to change in company tax rate | | 100 | | | |
| Add income tax under provided in prior year | | (110) | – | | |
| Income tax (benefit)/expense attributable to operating surplus | | (701) | 1 | | |
| Income tax (benefit)/expense attributable to operating surplus is made up of: | | | | | |
| Deferred income tax provision – current period | | (797) | 6 | | |
| Future income tax benefit – current period | | (14) | (5) | | |
| Under provision in prior year | | 110 | – | | |
| | | (701) | 1 | | |
| ii) Deferred taxation (consolidated from Pan Pacific) | | | | | |
| Opening balance | | 2,650 | 2,548 | | |
| Movement during the year | | (782) | 6 | | |
| Exchange movement during the year | | (92) | 96 | | |
| Closing balance | | 1,776 | 2,650 | | |
| iii) Future income tax benefit (consolidated from Pan Pacific) | | | | | |
| Opening balance | | 1,032 | 990 | | |
| Movement during the year | | 14 | 5 | | |
| Exchange rate movement during the year | | (34) | 37 | | |
| Closing balance | | 1,012 | 1,032 | | |
| iv) Future income tax benefit not taken into account | | | | | |
| Taxation losses not recognised | | | | | |
| • New Zealand | (i) | 46,409 | 47,340 | 26,503 | 25,449 |
| • Pan Pacific | (i) | 10,074 | 11,345 | – | – |
| | | 56,483 | 58,685 | 26,503 | 25,449 |

Notes:

- (i) The value of taxation losses not brought to account at 30 June 2001 is conditional on the relevant group companies continuing to meet the requirements of New Zealand and Australian tax legislation.
- (ii) The taxation losses above include timing differences of \$7,683,000 (2000: \$8,538,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.
- (iii) The income tax benefit of \$701,000 (2000: \$1,000 expense), provision for deferred income tax and future income tax benefits carried in the Group's financial statements at 30 June 2000 and 30 June 2001, arise from the consolidation of Australian listed subsidiary, Pan Pacific. This benefit arises mainly due to timing differences and tax losses within the parent company of Pan Pacific becoming virtually certain, and therefore now recognisable.

17. RELATED PARTY DISCLOSURES

The company is party to an agreement whereby Pafule Pty Limited ('Pafule'), a subsidiary of partly owned Pan Pacific, provides employees and office facilities to the company and related corporations and recovers the cost from NZOG, Pan Pacific and other users. During the year Pafule credited \$561,747 (inclusive of \$294,654 in respect of a director, R A Radford) to the company in recognition of the cost of Pafule employee participation in the NZOG share ownership plan. Pafule has accounted for an employee liability of \$174,000, in respect of a contractual settlement by NZOG with a director of the company, R A Radford. This settlement relates to 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. There are other potential claims against the company or Pafule that may arise as a result of those circumstances but directors do not expect additional liability to exist. The company plans legal action to confirm its position.

Except as disclosed above and in Notes 2, 4, 6, 8, 10, 14, 18 and 21 there were no material transactions with related parties during the year and no material balances due to or from related parties at balance date.

18. EMPLOYEE SHARE OWNERSHIP PLAN

(a) Description of Employee Share Ownership Plan

The Company has an employee share ownership plan under which NZOG Nominees Limited ('Nominees') holds as plan company and trustee of three trusts established in 1989, ordinary fully paid NZOG shares and NZOG options for the benefit of NZOG group employees, as follows:

| | Shares | | Options | |
|---|------------------------|------------------------|------------------------|------------------------|
| | 2001 Number 000s | 2000 Number 000s | 2001 Number 000s | 2000 Number 000s |
| Allocated | 6,234 | 2,559 | 2,757 | 902 |
| Unallocated | 1,181 | 4,866 | 1,489 | 3,344 |
| | <u>7,415</u> | <u>7,425</u> | <u>4,246</u> | <u>4,246</u> |
| As a percentage of total reported capital | 6.4% | 6.4% | | |

Other than the above, no shares are subject to put or call options, nor are the NZOG shares and NZOG options used as security for borrowings by the NZOG group or any other person.

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. The exercise prices are set at a premium to market value at date of granting.

(b) Investment and Advances

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 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.

| | Consolidated | | Parent Company | |
|--------------------------------|---------------|---------------|----------------|---------------|
| | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Investment and advances | | | | |
| Investment in shares | 2,719 | 2,719 | 2,719 | 2,719 |
| Advances | 216 | 216 | 216 | 216 |
| | <u>2,935</u> | <u>2,935</u> | <u>2,935</u> | <u>2,935</u> |

(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 | |
|--|---------------------------------------|-----------------------|------------------------------|-----------------------|
| | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| (i) Financial Position | | | | |
| Equity | | | | |
| Share capital | | | 3,750 | 3,750 |
| Retained deficit | | | (1,503) | (1,491) |
| | | | <u>2,247</u> | <u>2,259</u> |
| Assets | | | | |
| NZOG shares and NZOG options | | | | |
| – allocated | 2,687 | 667 | 3,517 | 1,099 |
| – unallocated | 576 | 1,316 | 508 | 2,926 |
| | <u>3,263</u> | <u>1,983</u> | <u>4,025</u> | <u>4,025</u> |
| Less provision for diminution in value | – | – | (1,646) | (1,646) |
| | <u>3,263</u> | <u>1,983</u> | <u>2,379</u> | <u>2,379</u> |
| Bank | 23 | 27 | 23 | 27 |
| Debtors | 76 | 76 | 76 | 76 |
| | <u>3,362</u> | <u>2,086</u> | <u>2,478</u> | <u>2,482</u> |
| Less Liabilities | | | | |
| Advances due to NZOG | (216) | (216) | (216) | (216) |
| Creditors | (15) | (7) | (15) | (7) |
| | <u>(231)</u> | <u>(223)</u> | <u>(231)</u> | <u>(223)</u> |
| Net Assets | <u>3,131</u> | <u>1,863</u> | <u>2,247</u> | <u>2,259</u> |
| (ii) Financial Performance | | | | |
| Interest income | | | – | 7 |
| Management fee | | | – | 10 |
| Legal fees | | | 9 | 26 |
| Loss on sale of securities | | | 2 | 161 |

The ESOP financial statements are unaudited.

19. GEOGRAPHICAL SEGMENTS

| | New Zealand | | Australia | | Consolidated | |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 | 2001 \$000 | 2000 \$000 |
| Sales revenue (gross) | 8,282 | 5,662 | 16,782 | 11,841 | 25,064 | 17,503 |
| Net surplus/(deficit) for the year | <u>2,604</u> | <u>(5,767)</u> | <u>(506)</u> | <u>(4,981)</u> | <u>2,098</u> | <u>(10,748)</u> |
| Total assets | <u>39,875</u> | <u>37,570</u> | <u>19,798</u> | <u>21,094</u> | <u>59,673</u> | <u>58,664</u> |

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

20. COMMITMENTS AND CONTINGENCIES

Capital Expenditure Commitments

At balance date the group has capital expenditure commitments of \$154,000 payable within one year (2000: \$9,000).

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) The company's subsidiary, Pan Pacific, has exploration licence commitments payable within one year of \$399,000 and payable later than one year and not later than 2 years of \$386,000.

(c) Security deposits of \$71,000 (2000: \$370,000) are held subject to licensed work programme commitments being met. During the year \$294,000 was refunded.

Contingent Assets

(a) Griffin Litigation

The Griffin Joint Venture Parties appeal relating to the 1997/98 contract claim was heard and dismissed in the full court of the Supreme Court of Western Australia on 24 May 2001. The matter will now proceed to rectification and is expected to be heard in the current half year. Pan Pacific's share of this claim is approximately NZ\$760,000.

(b) Tubridgi Gas Sales Agreement

Pan Pacific is party to the Tubridgi Gas Sales Agreement for sale of gas to AlintaGas. This agreement provides for a final payment to be paid, based on the quantity of gas delivered over the contract period 1 October 1998 to 10 November 2001. Gas production to date, indicates that Pan Pacific's share of the payment is likely to be approximately NZ\$851,000.

Contingent Liabilities

Pan Pacific is contingently liable to undertake field facility-related restoration works of possibly NZ\$1,077,000 in addition to that provided at 30 June 2001 (2000: NZ\$1,093,000). It is considered unlikely that the contingent sum will be crystallised.

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

21. 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

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 | |
|---|------|----------------|-------|
| | | 2001 | 2000 |
| | | % | % |
| Partly Owned Subsidiaries | | | |
| Pike River Coal Company Limited (See note 23) | 23 | 75.00 | 75.00 |
| Pan Pacific Petroleum NL (group) | (i) | 57.86 | 57.86 |
| Associate Companies | | | |
| NZOG Nominees Limited | 18 | 50.00 | 50.00 |

Notes:

- (i) Australian registered company.
- (ii) All subsidiary and associate companies have balance dates of 30 June and are involved in the petroleum and coal exploration industry.

22. EARNINGS PER SHARE

| | 2001 | 2000 |
|--|-------------|-------------|
| | Cents | Cents |
| Basic earnings per share | 1.8 | (9.7) |
| Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share | 115,532,071 | 110,906,571 |
| Diluted earnings per share | 2.9 | (3.9) |
| Weighted average number of ordinary shares and options outstanding during the year used in the calculation of diluted earnings per share | 195,736,317 | 191,110,817 |

23. EVENTS SUBSEQUENT TO BALANCE DATE

On 27 July 2001, Pike River Coal Company Limited issued 1,375,000 million shares at \$1 each initially payable to 50 cents representing a 4.4% equity to private investors. NZOG holds 22.5 million shares in PRCC equivalent to a 72% equity.

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

We have audited the financial statements on pages 6 to 27. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2001. This information is stated in accordance with the accounting policies set out on pages 10 to 13.

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 2001 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 carries out other assignments for the company and its subsidiaries in the area of accounting and taxation advice. The firm has no other 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 6 to 27:
 - 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 2001 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 13 September 2001 and our unqualified opinion is expressed as at that date.

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 to assist in the execution of its responsibilities.

| | Position | Expertise |
|--|--|-----------------------------|
| Mr R A Radford <i>ACA(NZ)</i> | executive chairman and managing director | resource company management |
| Prof R F Meyer <i>ONZM, BE, PhD, DistFIPENZ</i> | deputy chairman (non-executive) | engineering and energy |
| Mr P G Foley, <i>BCA, LLB</i> | non-executive | legal |
| Mr S J Rawson, <i>BSc, MSc</i> | non-executive | energy |
| Mr A K R Watson, <i>AM, FAIBF</i> | non-executive | banking and finance |

Audit Committee

The terms of reference of the audit committee 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 present chairman of the 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 present chairman of the remuneration committee is Prof. Meyer. The other members are Messrs P G Foley and A K R Watson.

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 and Benefits

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 2001 was \$462,695 being to or in respect of Messrs R A Radford \$319,704; A K R Watson \$51,741; S J Rawson \$28,750; P G Foley \$28,750; and R F Meyer \$33,750

An additional payment was made by the Group to Mr Radford as part of a contractual settlement by NZOG (see note 17 on page 24) and certain non-listed options were also issued to him (see below).

Employees' Remuneration

During the year ended 30 June 2001, two group employees (not including directors) received remuneration (including payments made by partly owned and wholly owned subsidiary companies) of at least \$100,000. Both were in the income band \$210,000-\$219,999.

Directors & Officers' Liability Insurance

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

Request for use of Company Information

There were no disclosures with respect to use of company information that would otherwise not be available to any person.

Directors' Securities Interests and Dealings

The interests of directors (and their associates) in equity securities of the company at 30 June 2001 were:

Mr R A Radford and associates (as defined by the New Zealand Stock Exchange Listing Rules) in respect of 6,374,558 shares and 2,200,494 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 of the Companies Act 1993, and Rules 1.3 & 10.5.3 of the New Zealand Stock Exchange Listing Rules) in shares of the Company: 1 July 2000 – Mr

Radford ceased to have a relevant interest in 1,227,393 shares held by a private superannuation fund and 264,700 shares held by a family member; 20 August 2000 – Mr Radford provided with the option to acquire 700,000 shares and 350,000 attached options arising from a standard allocation by the Employee Share Option Plan (ESOP) to all qualifying staff; 28 November 2000 – Mr Radford provided with the option to acquire 350,000 shares and 175,000 attached options arising from a standard allocation by the Employee Share Option Plan (ESOP) to all qualifying staff; 30 March 2001 – Mr Radford provided with non-listed, non-tradeable options to acquire 2,000,000 shares and 1,000,000 attached options (with an exercise price of 35.6 cents each) as part of a contractual settlement by NZOG.

Transactions in which Directors were Interested

Other than disclosed in this annual report, there have been no transactions in which directors have declared an interest.

Interest Disclosures

Since the publication of the last annual report, the following disclosures of interest by directors were entered into the Interests Register maintained by New Zealand Oil & Gas Limited.

P G Foley: Mr Foley is a partner in the law firm Minter Ellison Rudd Watts which is one of the law firms engaged by the company from time to time to provide legal advice to the group. Subsequent to balance date, Mr Foley subscribed for 10,000 shares in Pike River Coal Company Limited as part of the private placement made by that company. Mr Foley is a director of New Zealand Oil & Gas Limited.

S J Rawson: Subsequent to balance date, Mr Rawson subscribed for 10,000 shares in Pike River Coal Company Limited as part of the private placement made by that company. Mr Rawson is a director of New Zealand Oil & Gas Limited and Pike River Coal Company Limited.

The directors are to be regarded as having an interest in any contract that may be made with the entities listed above or as listed in note 21 of the financial statements (on pages 26 and 27) by virtue of the directorship, membership, or employment of those entities.

SHAREHOLDER AND OPTIONHOLDER INFORMATION

Top 20 Shareholders on the register *as at 9 October 2001*

| Name of Shareholder | Shareholding | % of Reported Capital * |
|--|--------------|-------------------------|
| Resources Trust Limited | 7,920,970 | 6.9 |
| NZOG Nominees Limited | 7,416,918 | 6.4 |
| Chiu-Hing Chan | 3,207,185 | 2.8 |
| Chung King Tan | 2,194,727 | 1.9 |
| Merrill Lynch | 1,551,604 | 1.3 |
| Stargate Oil Limited | 1,195,122 | 1.0 |
| Robert Albert Boas | 1,100,000 | 1.0 |
| Mehasu Pty Ltd | 1,048,900 | 0.9 |
| G M Robinson & D J Bradley | 1,000,000 | 0.9 |
| F A Buchler & S M Buchler | 920,000 | 0.8 |
| Ming Chow & Fook Kom Wong | 748,000 | 0.6 |
| Tyrannus Holdings Ltd | 735,178 | 0.6 |
| Citibank New York | 693,477 | 0.6 |
| Clara Shuk Fun Ma | 675,625 | 0.6 |
| Roy Anthony Radford | 667,727 | 0.6 |
| Hong Ling Lo | 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 |

Held in Treasury

| | |
|-------------------------------|-----------|
| New Zealand Oil & Gas Limited | 4,669,200 |
|-------------------------------|-----------|

*Reported capital represents shares held by the public and therefore excludes 4,669,200 shares held by NZOG as treasury stock.

Top 20 Optionholders on share register *as at 9 October 2001*

| Name of Optionholder | Optionholding | % of Reported Capital |
|-------------------------------|---------------|-----------------------|
| NZOG Nominees Limited | 4,042,000 | 6.7 |
| Resources Trust Limited | 3,440,805 | 5.7 |
| Robert Albert Boas | 1,457,700 | 2.4 |
| Miriam Hughes | 1,300,000 | 2.2 |
| H H M Winstone & P S Winstone | 950,000 | 1.6 |
| Otter Gold Mines Limited | 793,951 | 1.3 |
| Mehasu Pty Ltd | 750,000 | 1.2 |
| Jean Winstone | 686,818 | 1.1 |
| Chung King Tan | 668,500 | 1.1 |
| Stargate Oil Limited | 594,561 | 1.0 |
| Jean Winstar | 563,000 | 0.9 |
| Estate Peter Anthony Bradley | 560,500 | 0.9 |
| Amalgamated Dairies Limited | 484,850 | 0.8 |
| Murray McGill | 426,681 | 0.7 |
| Roy Herbert Fry | 425,930 | 0.7 |
| Joanne Elizabeth Calvert | 400,000 | 0.7 |
| Maurice Bede Fouhy | 400,000 | 0.7 |
| Robert Arthur Winstone | 376,082 | 0.6 |
| C E Boreham & D P Boreham | 350,000 | 0.6 |
| Thomas Edward Currie | 350,000 | 0.6 |
| Keith McKay Urquhart | 350,000 | 0.6 |

Held in Treasury

| | |
|----------------------|------------|
| Oil Holdings Limited | 20,105,262 |
|----------------------|------------|

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

Trading Statistics

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

| | NZSE Shares (NOG)* NZ\$ | NZSE Options (NOGOB)* NZ\$ | ASX Shares (NZO)* A\$ | ASX Options (NZOO)* A\$ |
|---|-------------------------------|----------------------------------|-----------------------------|-------------------------------|
| Trading – 12 months ended 9 October 2001 | | | | |
| Year's low-high | 26c-44c | 2c-9c | 20.5c-39.5c | 1c-8c |
| Year's total volume traded | 16,762,205 | 15,165,726 | 2,821,502 | 1,565,075 |

*Trading codes

Distribution of Holdings at 9 October 2001

Ordinary Shares

| Holding | No of Shareholders | Total Shares |
|------------------|--------------------|--------------------|
| 1-1,000 | 7,339 | 3,231,794 |
| 1,001-5,000 | 4,338 | 10,683,832 |
| 5,001-10,000 | 1,125 | 9,262,663 |
| 10,001-100,000 | 1,271 | 37,490,841 |
| 100,001 and over | 124 | 59,532,141 |
| | 14,197 | 120,201,271 |

2001 Options

| Holding | No of Optionholders | Total Options |
|------------------|---------------------|-------------------|
| 1-1,000 | 6,825 | 2,909,395 |
| 1,001-5,000 | 1,996 | 4,590,488 |
| 5,001-10,000 | 334 | 2,626,804 |
| 10,001-100,000 | 485 | 16,441,590 |
| 100,001 and over | 92 | 53,635,969 |
| | 9,732 | 80,204,246 |

Substantial Shareholders

Substantial Shareholder notices as at 9 October 2001

| Name of Shareholder | Shares held in issued capital** |
|---------------------------------|---------------------------------|
| * New Zealand Oil & Gas Limited | 13,323,200 |
| Resources Trust Limited | 7,920,970 |
| NZOG Nominees Limited | 8,654,000 |

* This incorporated NZOG's treasury stock of 4,669,200 and NZOG Nominees Limited holding at the time of the notice of 8,654,000 shares.

** Total issued capital of 120,201,271 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.

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
A K R Watson AM, FAIBF

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, FCCM, 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.

