

MOVING  
DEVELOPMENTS  
FORWARD

# New Zealand Oil & Gas Limited

A N N U A L R E P O R T 2 0 0 3



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# MOVING DEVELOPMENTS FORWARD

**KUPE GAS/OIL FIELD** (NZOG 19%) – formal commitment to develop the field is likely in first quarter 2004

- Kupe is one of only two substantial untapped gas fields in New Zealand
- Higher gas prices in the New Zealand market have boosted the value of Kupe over the past year
- Development engineering studies have commenced
- Negotiations are in progress to obtain financing for NZOG's share of development costs

**TUI OIL DISCOVERY** (NZOG 20%) – follow-up drilling is planned, the aim being to produce first oil as early as 2005

- The Tui discovery may represent a major new oil “play”
- A second well in a nearby prospect to be drilled late 2003/early 2004
- Several similar exploration prospects defined by recent 3D seismic

**PIKE RIVER COAL FIELD** (NZOG 72%) – to be developed to produce metallurgical coking coal

- Projected production rate of more than one million tonnes p.a.
- 18 year mine life to produce more than \$1.2 billion in export coal sales
- Go-ahead awaits land access permission

## OTHER KEY PROJECTS

**PUKEKO** (NZOG 20%) – large oil prospect 70 km south of Tui

- A structural complex with more than 100 million barrel oil potential
- Drilling anticipated early 2004

**MANGATOA** (NZOG 50%) – major gas prospect drillable from an onshore location

- Potential to hold 1 to 2 trillion cubic feet of gas

**TUIHU** (NZOG 20%) – redrilling of a 50 billion cubic feet gas prospect, onshore Taranaki

- Drilling commenced late August 2003
- Location is optimally placed for tie in to existing pipelines

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## ANNUAL GENERAL MEETING

The 2003 Annual General Meeting of New Zealand Oil & Gas Limited will be held at the Crowne Plaza Hotel, Ballroom Two, 128 Albert Street, Auckland on Friday, 24 October 2003. The meeting will commence at 10.00am.

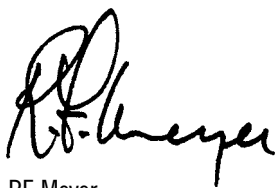
## COMPANY PROFILE

New Zealand Oil & Gas Limited is an independent company listed on the New Zealand and Australian stock exchanges. Most of NZOG's 13,000 shareholders are individual investors.

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

## 2003 ANNUAL REPORT

The 2003 Annual Report of New Zealand Oil & Gas Limited is approved for and on behalf of the Board.



RF Meyer  
Director  
17 September 2003



RA Radford  
Director

# CHAIRMAN'S REPORT

Dear Investor,

On behalf of the directors, I am pleased to report on the rapid progress made in moving our recent Tui oil discovery forward and the significant advancement of the Kupe and Pike River projects.

The Tui exploration well, drilled in February 2003, intersected an oil accumulation in the Kapuni F sand that could lead to the establishment of a major new oil play to the west of the Maui field. The F sand has been very productive at Maui, where oil was discovered at this level at Maui B in 1993. This was recognised as a key factor by NZOG when obtaining the PEP38460 permit area in 1996.

Whilst the main Kapuni D Sand objective of the Tui-1 well was not successful, the discovery in the F Sand was rapidly followed by a 3D seismic survey. Several prospects in close proximity to Tui have been identified from this seismic data. Further drilling is planned, possibly as early as December this year with a well at Amokura, a prospect only 5km from Tui-1. Success at Amokura would enable a joint development with Tui to commence next year.

Elsewhere in PEP38460, the joint venture extended the licence to encompass the whole of the Pukeko prospect, which potentially contains in excess of 100 million barrels of oil. Drilling this structural complex is under consideration for early in 2004.

Elsewhere in our offshore exploration licences:

- there was disappointment that the additional seismic data acquired over the Ray prospect failed to come up with a clear target for drilling;
- the large Mangatōa gas prospect is being refined by reprocessing seismic data to determine the most suitable drilling location.

Onshore, during the year NZOG better positioned itself by:

- acquiring a majority position in PEP38728, where we are working up oil objectives untested by last year's Makino-1 well;
- taking a 20% stake in PEP38718, where, at the date of this report, the Tuihu-1 well is being re-drilled in the search for gas reserves.

Within the Ngatoro production licence, the Tabla exploration well drilled late last year remains untested and a "waterflood" of the Ngatoro reservoir to restore pressure and thereby enhance oil recoveries, has yet to be implemented. These delays reflect the difficulty which NZOG is experiencing in dealing with its co-venturer Greymouth Petroleum. An early resolution of this situation seems unlikely. Despite these delays, NZOG's Ngatoro field interest remains a valuable asset.

There was very good progress made during the year in moving developments forward at Kupe and Pike River.

Negotiations for the sale of NZOG's share of Kupe gas reserves have advanced substantially in recent months, as have discussions on financing our share of field development costs, likely to be in the order of NZ\$40 million.

Initial development engineering work at Kupe is under way, and is due for completion by the end of this year. Your directors are confident that in light of the pressing need for new gas supplies, and the robust economics of the Kupe project, a decision to develop Kupe will be made in the new year. This would enable first production during 2007, with a field life of at least 15 years.

In May this year, the majority of resource consents required for the Pike River coal project were received, while final water discharge consents are still being negotiated. Also over recent months, a more definitive groundwater model has been developed which, I am glad to report, indicates that drainage of water from the mine will not be acid-producing, nor will it contain any metals harmful to aquatic life. This water study completes the information required by the Minister of Conservation, to enable him to decide whether to grant access to the coal deposit via land administered by his department.

As you will see from the financial statements, the consolidated result for the year ended 30 June 2003, was a small loss of \$0.76 million. This result is in part a reflection of exploration expenditures written off and also the fact that key projects are moving into

development stages, so that revenues and profits have yet to flow.

During the year, additional funds were raised through an offer to all shareholders, with an individual limit of NZ\$6,000. In conjunction with that offer, shares were placed with some of the larger shareholders. Overall \$4.4 million was raised. At the 2003 annual general meeting shareholders will be asked to ratify these share issues.

In June this year, Mr David Scoffham was appointed as an additional director of the company. Shareholders are asked to confirm this appointment at the forthcoming annual general meeting. Mr Scoffham, 58, is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics). He recently took up residence in New Zealand following over 30 years international experience in the oil industry, including exploration management with

Shell and UK independent Enterprise Oil plc, where he played a major role in several important oil field discoveries.

Development of Kupe, and hopefully Tui, are the building blocks needed to transform the company over the next 2 to 3 years from being essentially an explorer, to becoming a significant producer with a strong and sustained profit stream. As always, the company also continues the hunt for the big discovery, which the plays in PEP 38460 might deliver.

On behalf of the directors



R A Radford  
Chairman



# MAJOR DEVELOPMENTS IN PROGRESS

## KUPE OIL & GAS DEVELOPMENT (NZOG 19%)

### Near term development of Kupe likely

NZOG and partner, government electricity company Genesis Power, recently commissioned the initial engineering and design study for development of the Kupe field. This study will be completed before the end of 2003. In the meantime, Genesis is moving to sell some of its equity holding to achieve a sounder joint venture framework, which should facilitate taking the project into development and production, expected to be by 2007.

Gas prices have doubled since news broke of the early depletion of the giant Maui gas field, which will occur by 2007. As a result, Kupe is now a significantly more valuable asset than was the case a year ago. The company is advancing negotiations for the sale of its share of gas reserves (36-46 petajoules), on terms above current market prices. NZOG is also well advanced in obtaining financing to meet the whole of its share of the Kupe field development costs.

The initial engineering study now underway is based

on producing 190-240 petajoules of gas and 9-16 million barrels of liquids from the central area of the field, known as the CFA. NZOG's share of those reserves is 36-46 petajoules of gas and 2-3 million barrels of oil.

There is potential to double those reserves should the drilling of several nearby prospects in the Kupe mining permit (Stent/Denby/Marshall/Otaraoa) and other parts of the CFA prove successful.

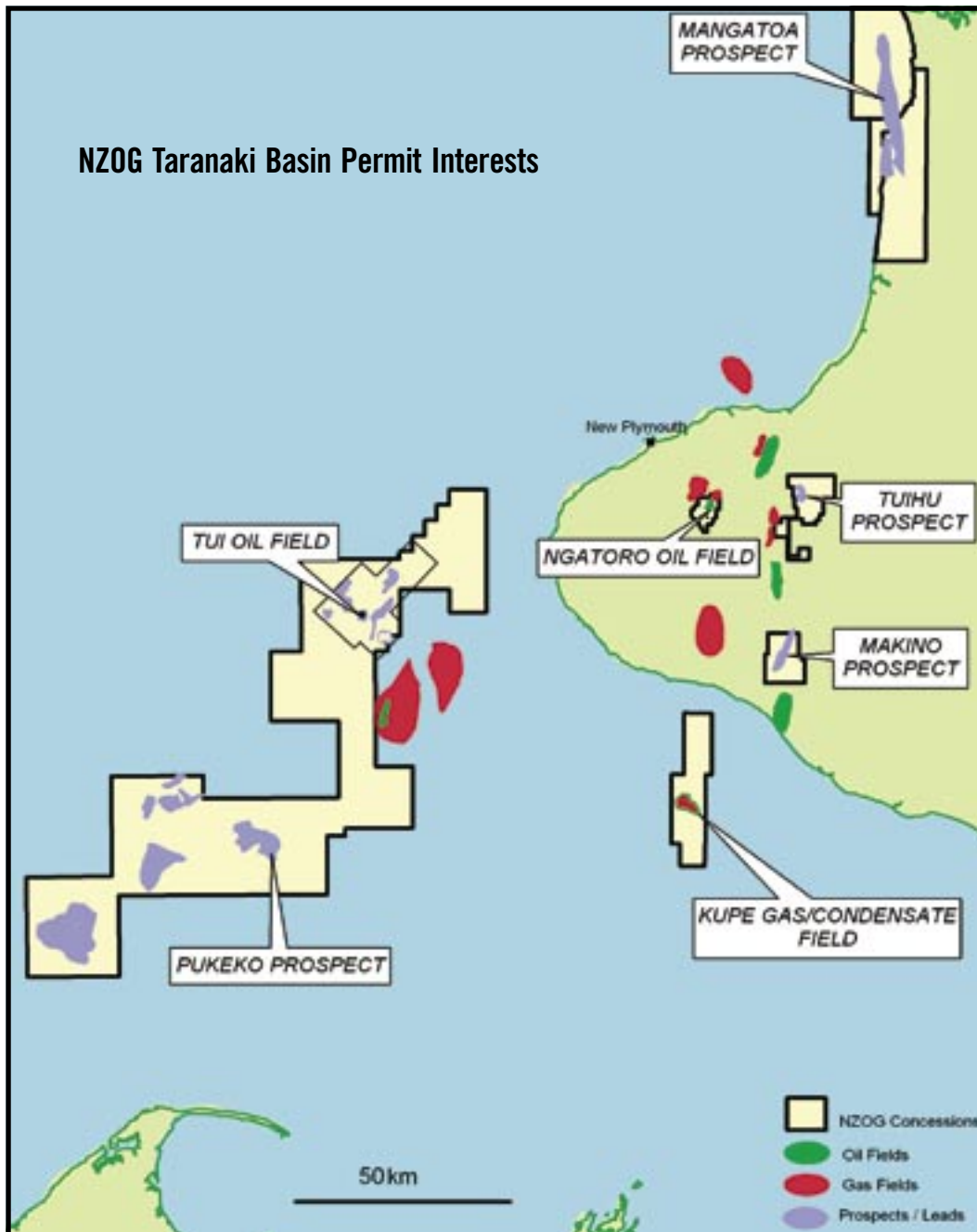
The Stent and Marshall prospects, to the south of the Kupe field, both exhibit direct hydrocarbon indications on seismic, similar to those seen over the CFA. If drilling confirms commercial viability of Stent and/or Marshall, development would involve tying back pipelines into the CFA development.

## PIKE RIVER COALFIELD DEVELOPMENT (NZOG 72%)

### NZOG is pressing to develop the Pike River coking coal deposit

Progress in the past 12 months has been substantial, to the point that Pike River Coal Company ('PRCC') has now completed all steps necessary to





support its application for access to the Pike River coal deposit, located under land administered by the Department of Conservation (DoC).

Following a 4 hole drilling programme in early 2003, an expert international engineering and consulting firm employed by PRCC for water issues, has confirmed that water quality will be protected by the proposed mine design and post closure water treatment facilities.

PRCC has refined its development design for the Pike River mine in consultation with DoC and various interest groups, to ensure the project is environmentally benign. The proposed underground mine will have little surface impact, will not affect the neighbouring national park and through extensive pest eradica-

tion measures, is expected to enhance local native birdlife significantly. In awarding resource consents in May this year, the Commissioners recognised that the proposed mine “may even offer an opportunity to provide overall environmental gains”. Steps are now being taken to resolve the appeal by DoC on the water discharge resource consent granted in 1999.

The coking coal market remains strong, so that a consent to land access would enable rapid progression to a formal go-ahead for development. Pike River coal is a semi-hard coking coal with attractive properties of low ash and high fluidity. First year production of more than 500,000 tonnes would rise to approximately 1.1 million tonnes pa by the second year continuing at this rate for 15 to 18 years, or longer.



Offshore semi-submersible drilling unit

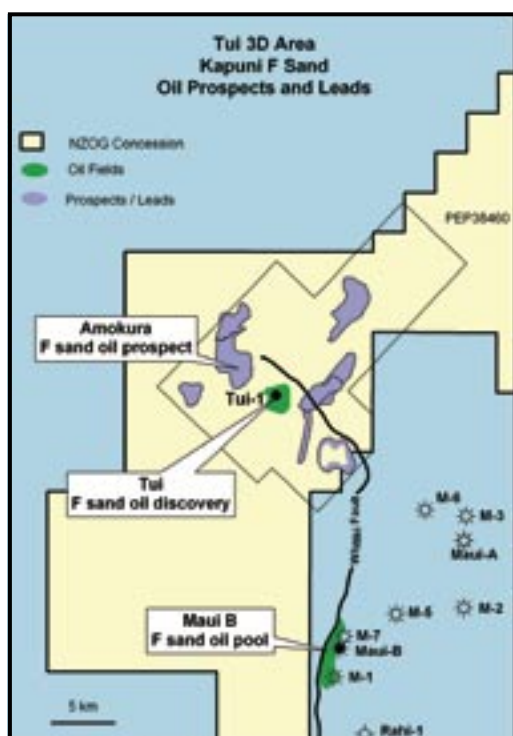
## TUI DEVELOPMENT (NZOG 20%)

### Drilling to follow-up the Tui-1 oil discovery

The Tui-1 well drilled in February 2003 intersected a 10 metre oil column (100% pay) in the thick, well-developed Kapuni "F Sands" at 3673 metres (12,000 feet). Kapuni F Sands in the nearby Maui field are known to have extremely good productivity. Based on analysis of rock samples and downhole logs run in the Tui-1 well, individual horizontal production wells can be expected to flow at rates of 5,000 to 10,000 barrels of oil per day.

The D Sands, which were the primary target of the well, were encountered substantially as predicted, but were not associated with producible hydrocarbons despite extensive oil shows.

Since the oil discovery the partners in this licence acquired a "3D" seismic survey to get a clearer picture of the size of the Tui field and to pinpoint similar nearby structures, which may also contain oil. The 3D seismic data quality is excellent and confirms a



structural closure over Tui with potential recoverable oil of 10-15 million barrels.

In addition to the Tui field, several other prospects, with individual potential to recover 10 to 40 million barrels of oil were identified from this year's 3D seismic survey. A follow-up exploration well in one of these prospects, likely to be Amokura (5km to the west), is planned for late 2003/early 2004. Amokura and several other prospects are located within 10 km of Tui, enabling a combined development of any discoveries.

The conceptual development of Tui is simple and rapid, comprising a subsea wellhead with risers and umbilicals to a leased vessel for oil storage. If exploration drilling on nearby prospects is successful, production wells would be drilled by March 2005 with first oil by about mid 2005.

## NGATORO FIELD (NZOG 35%)

### Waterflood planned at Ngatoro to boost production and reserves

Ngatoro was discovered by NZOG in 1991, and in the subsequent 12 years has produced 3.7 million barrels of oil. At present, production is declining due to natural depletion of the reservoir (last years average rate was 638 barrels of oil per day ('bopd') compared to 770 bopd in the year prior). A water injection scheme is proposed by NZOG to reverse this trend increasing production above present levels, to recover an additional 2.4 million barrels of oil, in addition to the currently booked reserves of 0.8 million barrels. Delays in implementing the water injection scheme reflect the difficulty which NZOG has experienced in dealing with its co-venturer Greymouth Petroleum. An early resolution of this situation appears unlikely.

Elsewhere in the permit, the Tabla-1 well drilled in December 2002 encountered a 10 metre hydrocarbon column, indicated by log analysis. Casing has been run so the well can be tested to determine if it flows gas or oil at commercial rates. This awaits agreement of the venture partners on the testing methodology.

Ngatoro and Tabla are relatively shallow (around 1600 metres). Deep gas potential within the Kapuni Formation – the main sand from which hydrocarbons are produced in the Taranaki Basin – is also recognised from the Ngatoro-1 well drilled in 1983, which flowed gas at 1.5 mmscf/d. The 3D seismic data acquired in 1995, shows the Ngatoro-1 well to be situated on the flank of a substantial structural closure at Kapuni level.



# EXPLORATION

## PEP38460 – PUKEKO (NZOG 20%)

### Possible near term drilling of high potential Pukeko oil prospect

The discovery of oil at Tui points to a source of oil further west in the Kahurangi Trough. If correct, this upgrades other prospects in the permit – Pukeko, Hector and Tahuroa. Pukeko would be particularly favoured, because this feature is located within the Kahurangi Trough in close proximity to the postulated source of oil.

Pukeko is a large structural complex at the level of both the F and C sands in the Kapuni Formation, some 70 km southeast of Tui, with potential of some 100 million barrels of oil.

Drilling of Pukeko is under consideration for late 2003/early 2004.

## PEP38718 – TUIHU (NZOG 20%)

### Redrilling of Tuihu started August 2003

NZOG and its partners are redrilling the Tuihu-1 well at the time of writing this annual report. NZOG acquired a 20% interest in PEP38718 on the basis that the Tuihu prospect may produce gas at commercial rates from the Tariki sandstone, where gas shows were encountered during drilling 3 years ago. The Tariki sandstone has indicative potential of 50 billion cubic feet of gas, and there is a second, deeper target of similar size at the Kapuni Formation level.

Close proximity to pipelines (6 kilometres) means a



Tuihu-1A drilling in progress

discovery at Tuihu could be developed and tied into existing infrastructure within 6 months.

## PEP38728 – MAKINO (NZOG 56%)

### NZOG acquires majority interest and operatorship of Makino

The onshore PEP38728 permit is located along the eastern margin of the onshore Taranaki Basin, on trend with the Rimu and Kauri discoveries made in 2000/2001.

NZOG increased its interest to 56% and took operatorship of the PEP38728 joint venture in August 2003 in order to pursue the still undrilled targets in the Makino prospect. NZOG believes the Tikorangi and Tariki targets were not properly evaluated by the Makino-1B well drilled in 2002. These targets each have potential to recover in the order of 20-30 million barrels, half of which lies within PEP38728.

## PETROLEUM INTERESTS AS AT 31 AUGUST 2003

JOINT VENTURE	Gross Area km <sup>2</sup>	Interest %
<b>Production</b>		
PMP 38148 Ngatoro	37	35.43
<b>Development</b>		
PML 38146 Kupe	256	19.00
<b>Exploration</b>		
PEP 38460	3494	20.00
PEP 38478	361	50.00
PEP 38718	115	20.00
PEP 38728	99	56.00
PEP 38729	475	75.00

## PEP's 38729 and 38478 (NZOG 75% and 50% respectively)

### Mangatoa – A major gas prospect

The Mangatoa prospect lies mostly offshore (in PEP38478) and has been established as a substantial gas/condensate prospect by NZOG's evaluation of the offshore Te Ranga-1 well, which was drilled into the northern part of the Mangatoa structure.

Mangatoa is a large sub-thrust play at a deep Cretaceous level. The structure is a north-south elongate feature, sealed updip by the Jurassic and Triassic rocks within the overthrust. The primary target is the Cretaceous Taniwha Formation.

The Te Ranga-1 well, drilled in 1986 by Shell BP Todd, intersected some 140m of predominantly sandy Taniwha Formation in the northern (offshore) part of the structure, at a depth of approximately 3750m. Significant gas shows were recorded, but the reservoir was not flow tested. NZOG's analysis of the well data indicates an average porosity of 13% and permeability of 0.5 millidarcies for these sands.

Evaluation of the configuration of the Mangatoa structure is distorted by seismic velocity effects associated with the overthrust, and geophysical studies are in progress to define the optimal location for drilling the prospect. It is expected that Mangatoa could be evaluated using a deviated well drilled from onshore and NZOG plans to introduce new participants to the permit to fund such drilling.

Mid-case recoverable potential for the Mangatoa structure (within both PEP38729 and PEP38478) is estimated at 2,300 petajoules, with some 160 million barrels of associated condensate.

## FINANCIAL INFORMATION

NZOG made a net loss of \$0.76 million for the financial year after writing off exploration costs of \$1.6 million.

Sales revenues from the Ngatoro oil and gas field for the year were \$4.3 million, down from \$6 million in the prior year, due to natural decline.

The prior year results are not comparable as Pan Pacific Petroleum NL made a contribution to the NZOG consolidated profit, until deconsolidated on 19 December 2001. The prior year result also included an unusual gain of \$5.4 million on the distribution of Pan Pacific shares.

The major cash expenditures during the year were

### 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 Asia Pacific), a member of the Australasian Institute of Mining and Metallurgy.

### Energy Values

1,000 standard cubic feet of gas yields approximately 1 gigajoule of heat

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

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

Gas energy values vary depending on the CO<sub>2</sub>, other inerts and C<sub>2</sub>+ content of the gas, so is not fixed. Taranaki gas is generally around the above levels. For field reserve estimates where the gas quality is known, reserves can be accurately stated in PJ. For prospects where gas quality is not known the BCF is estimated volumetrically and the above assumptions applied in order to use consistent units of PJ. Calorific value is the basis for gas sales – \$/GJ.

Tui-1 drilling costs (to the extent not met by farm-out) and on the acquisition of the subsequent Tui 3D seismic survey.

During the year, 72.18 million options were issued at 2 cents (NZ\$) each, with an exercise price of 60 cents (NZ\$), exercisable up to 30 June 2005. The company also issued 12.7 million ordinary shares in February 2003 at 34.5 cents (NZ\$) each to raise \$4.4 million pursuant to a share purchase plan and a private placement.

The company held cash of \$7.4 million at 30 June 2003.

# DIRECTORS AND MANAGEMENT

## Directors

### Mr R A Radford

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

### Prof R Meyer

Ray Meyer obtained his BE from the University of NZ (Canterbury) and his PhD from the University of Manchester. A Distinguished Fellow of the Institution of Professional Engineers New Zealand, his career has included senior research positions in Canada and the Chair of Mechanical Engineering at the University of Auckland. He was a director of ECNZ and of Transpower and is currently a director of Watercare Services Ltd. Ray joined the NZOG Board in 2000 as deputy Chairman. He also heads the board's audit and remuneration committees.

### Mr P G Foley

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

### Mr S J Rawson

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

### Mr D R Scoffham

David Scoffham joined the board of NZOG in June 2003. David recently took up residence in New Zealand following over 30 years international experience in the oil industry. This included experience in Egypt, Gabon, Oman and Venezuela with Shell, and in explo-

ration management with UK independent Enterprise Oil plc. He played a major role in several important oilfield discoveries in NW Europe which resulted in the major expansion of Enterprise Oil. David is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics).

## Management

### Mr B W Roulston (company secretary)

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

### Dr E R Matthews (exploration manager)

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

### Mr G A Ward (finance manager)

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

# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 30 June 2003

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Total revenue	2(i)	<b>4,659</b>	19,902	<b>378</b>	487
Operating (deficit)/surplus before taxation	2(ii)	<b>(701)</b>	1,958	<b>(1,304)</b>	11,019
Taxation expense	18	<b>(64)</b>	(137)	–	–
<b>Net (deficit)/surplus for the year</b>		<b>(765)</b>	1,821	<b>(1,304)</b>	11,019
Net (deficit)/surplus comprises:					
Parent interest		<b>(756)</b>	1,486		
Minority interest	3	<b>(9)</b>	335		
		<b>(765)</b>	1,821		

Consolidated financial results for the 2002 year include a contribution by former subsidiary Pan Pacific Petroleum NL ('Pan Pacific' or 'PPP') up until 19 December 2001.

## STATEMENT OF MOVEMENTS IN EQUITY

for the year ended 30 June 2003

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Equity/(deficit) at beginning of year		<b>36,244</b>	51,101	<b>570</b>	(3,358)
Net (deficit)/surplus for the year		<b>(756)</b>	1,486	<b>(1,304)</b>	11,019
Movement in foreign currency translation reserve	4	–	(66)	–	–
Movement in share revaluation reserve	4	–	–	–	4,914
<b>Total recognised revenues and expenses</b>		<b>(756)</b>	1,420	<b>(1,304)</b>	15,933
Movement in minority interest		<b>(9)</b>	(4,272)		
Shares issued	4(i)	<b>4,380</b>	–	<b>4,380</b>	–
Options issued	4(ii)	<b>1,443</b>	–	<b>1,443</b>	–
Options exercised (30 June 2002)	4(iv)	–	101	–	101
Repurchase and cancellation of shares and elimination of accumulated losses pursuant to Scheme of Arrangement	4(v)	–	(11,987)	–	(11,987)
Cancellation of other shares and elimination of accumulated losses	4(iii)	–	(119)	–	(119)
<b>Equity at end of year</b>		<b>41,302</b>	36,244	<b>5,089</b>	570

The notes on pages 14 to 31 form part of and are to be read in conjunction with these financial statements.



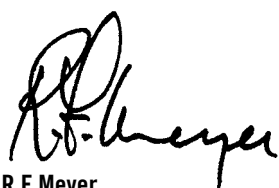
## STATEMENT OF FINANCIAL POSITION

as at 30 June 2003

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>Current Assets</b>					
Short term securities and cash deposits	5	7,904	7,162	6,823	4,642
Receivables	6	1,484	1,197	403	426
Inventories	7	710	503	–	–
Investments in resource companies	8	–	510	–	510
<b>Total Current Assets</b>		<b>10,098</b>	<b>9,372</b>	<b>7,226</b>	<b>5,578</b>
<b>Non-Current Assets</b>					
Receivables	6	–	–	803	724
Investments in associate company	9	2,719	2,719	2,719	2,719
Investment in subsidiaries	9	–	–	67,193	67,416
Investment in resource companies	8	962	962	40	40
Fixed assets	11	327	410	–	–
Petroleum and coal interests	13	31,548	28,060	–	–
Other	14	154	188	–	–
<b>Total Non-Current Assets</b>		<b>35,710</b>	<b>32,339</b>	<b>70,755</b>	<b>70,899</b>
<b>Total Assets</b>		<b>45,808</b>	<b>41,711</b>	<b>77,981</b>	<b>76,477</b>
<b>Current Liabilities</b>					
Creditors	15	3,715	4,449	262	469
Provisions	16	166	409	38	37
<b>Total Current Liabilities</b>		<b>3,881</b>	<b>4,858</b>	<b>300</b>	<b>506</b>
<b>Non-Current Liabilities</b>	16	<b>625</b>	609	<b>72,592</b>	75,401
<b>Total Liabilities</b>		<b>4,506</b>	5,467	<b>72,892</b>	75,907
<b>NET ASSETS</b>		<b>41,302</b>	36,244	<b>5,089</b>	570
<b>EQUITY</b>					
Attributable to Shareholders of the Company	4	38,317	33,250	5,089	570
Attributable to Minority Shareholders of the Group	3	2,985	2,994	–	–
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>41,302</b>	36,244	<b>5,089</b>	570

The notes on pages 14 to 31 form part of and are to be read in conjunction with these financial statements.

On behalf of the Board of Directors



R F Meyer  
Director  
29 August 2003



R A Radford  
Director  
29 August 2003

## STATEMENT OF CASH FLOWS

for the year ended 30 June 2003

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>Cash Flows From Operating Activities</b>					
<i>Cash was received from:</i>					
Interest received		256	421	270	321
Petroleum sales		4,392	13,145	–	–
		<b>4,648</b>	<b>13,566</b>	<b>270</b>	<b>321</b>
<i>Cash was paid for:</i>					
Production expenses		(1,849)	(7,837)	–	–
Other payments to suppliers and employees		(1,889)	(495)	(1,442)	(1,551)
		<b>(3,738)</b>	<b>(8,332)</b>	<b>(1,442)</b>	<b>(1,551)</b>
<b>Net cash flows from operating activities</b>		<b>910</b>	<b>5,234</b>	<b>(1,172)</b>	<b>(1,230)</b>
<b>Cash Flows From Investing Activities</b>					
<i>Cash was received from:</i>					
Sale of fixed assets		5	–	–	–
Sale of investment in resource company		532	586	532	586
		<b>537</b>	<b>586</b>	<b>532</b>	<b>586</b>
<i>Cash was paid for:</i>					
Advances to subsidiary and associate companies		16	(240)	(2,888)	(3,860)
Petroleum and coal expenditures		(6,386)	(5,891)	–	–
Purchase of fixed assets		(28)	(27)	–	–
Purchase of shares in resource company		–	(40)	–	(40)
Eliminate cash held by PPP upon deconsolidation	(i)	–	(5,716)	–	–
		<b>(6,398)</b>	<b>(11,914)</b>	<b>(2,888)</b>	<b>(3,900)</b>
<b>Net cash flows from investing activities</b>		<b>(5,861)</b>	<b>(11,328)</b>	<b>(2,356)</b>	<b>(3,314)</b>
<b>Cash Flows From Financing Activities</b>					
<i>Cash was received from:</i>					
Issue of shares		4,380	–	4,380	–
Issue of options		1,443	–	1,443	–
Issue of shares in partly owned subsidiary		–	791	–	–
Issue of shares from exercise of options		–	101	–	101
		<b>5,823</b>	<b>892</b>	<b>5,823</b>	<b>101</b>
<i>Cash was paid for:</i>					
Security deposit		(15)	–	–	–
<b>Net cash flows from financing activities</b>		<b>5,808</b>	<b>892</b>	<b>5,823</b>	<b>101</b>

### Notes:

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

The notes on pages 14 to 31 form part of and are to be read in conjunction with these financial statements.

## STATEMENT OF CASH FLOWS (CONTINUED)

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>Net increase/(decrease) in cash</b>		<b>857</b>	(5,202)	<b>2,295</b>	(4,443)
Cash at beginning of period		<b>7,162</b>	12,776	<b>4,642</b>	9,469
Effect of exchange rate changes on cash		<b>(115)</b>	(412)	<b>(114)</b>	(384)
<b>CASH AT END OF PERIOD</b>		<b>7,904</b>	7,162	<b>6,823</b>	4,642
<b>Made up as follows:</b>					
Short term securities and cash deposits	5	<b>7,904</b>	7,162	<b>6,823</b>	4,642
<b>RECONCILIATION OF NET (DEFICIT)/SURPLUS FOR THE YEAR WITH NET CASH FLOWS FROM OPERATING ACTIVITIES</b>					
<b>Net (deficit)/surplus for the year</b>		<b>(765)</b>	1,821	<b>(1,304)</b>	11,019
<i>Adjust for non-cash items in operating (deficit)/surplus:</i>					
Amortisation of development expenditure		<b>526</b>	1,460	–	–
Increase in provision for restoration		–	179	–	–
Provision against intercompany advances written-back		–	–	–	(21,453)
Provision against investment in subsidiaries		–	–	<b>223</b>	8,304
Depreciation		<b>105</b>	968	–	–
Deferred tax asset		<b>49</b>	–	–	–
Provision for income tax		<b>(59)</b>	–	<b>1</b>	–
Loss on sale of plant and equipment		<b>5</b>	–	–	–
Write-off of petroleum and coal expenditure		<b>1,577</b>	6,548	–	–
Write-off advance to associate company		–	72	–	–
Write back of investment in resource company		–	(490)	–	(490)
(Gain)/loss on disposition of investment in partly owned subsidiary		–	(5,418)	–	741
Gain on sale of investment in resource company		<b>(22)</b>	(84)	<b>(22)</b>	(84)
In-specie dividend received		–	(119)	–	(119)
<i>Changes in assets and liabilities:</i>					
(Increase)/decrease in debtors		<b>(285)</b>	(715)	<b>23</b>	439
(Decrease)/increase in creditors		<b>(166)</b>	784	<b>(207)</b>	29
(Decrease)/increase in provisions		<b>(170)</b>	(184)	–	–
<i>Items included in other cash flow categories:</i>					
Exchange losses		<b>115</b>	412	<b>114</b>	384
<b>Net cash flows from operating activities</b>		<b>910</b>	5,234	<b>(1,172)</b>	(1,230)

The notes on pages 14 to 31 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' or 'NZOG') 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 period.

Summarised hereafter are the significant accounting policies adopted.

### Basis of Consolidation

#### (a) Principles of Consolidation

##### (i) *Subsidiaries*

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

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

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

##### (ii) *Associate Companies*

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

##### (iii) *Treasury Capital*

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

#### (b) Balance on Acquisition

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

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

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

### Petroleum and Coal Interests

Expenditure incurred on petroleum and coal 'areas of interest' is accounted for using the successful efforts method. An area of interest is



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

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

Directors valuations of areas of interests 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.

(i) *Production interests*

Production interests comprise exploration, evaluation and development costs (excluding fixed asset expenditure) incurred in relation to areas of interest in which petroleum production has commenced. Expenditure on production interests is amortised using the production output method resulting in an amortisation charge proportional to the depletion of economically recoverable proven reserves. Where such costs are considered not to be fully recoverable under existing conditions, an amount is provided to cover the shortfall.

(ii) *Development interests*

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

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

(iii) *Exploration and Evaluation interests*

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

- (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.

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

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

### **Restoration and Rehabilitation Expenditure**

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

### **Joint Ventures**

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

### **Petroleum Sales Revenue**

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

### **Unearned Income**

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

**Administration and Operating Expenses**

The group incurs certain administration and operating expenses, which are recovered in the normal course of operations. A proportion of those expenses which relate to the group are reflected in the current period's expenditure included in petroleum and coal interests. 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.

**Inventories**

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

**Fixed Assets**

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

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

Office partitions, furniture & fittings	5-6 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 4 years.

**Investments in Short Term Securities**

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

**Investments in Listed Resource Companies**

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

**Investments in Unlisted Resource Companies**

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

**Investments in Wholly Owned Subsidiaries**

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

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

**Foreign Currencies**

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

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

### Financial Instruments

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

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

### Statement of Cash Flows

- (i) **Cash** includes bank bills, cash on hand and at bank, short term deposits and government stock less any overdraft.
- (ii) **Operating cash flows** represents cash received from customers and paid to suppliers and employees including production operating expenses and royalties.
- (iii) **Investing cash flows** represents cash flows arising from the acquisition and divestment of investment and productive assets. Productive assets comprise fixed assets and accumulated expenditure in petroleum and coal interests.
- (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 (deficit)/surplus before taxation adjusted for permanent differences between taxable and accounting income. Deferred tax is calculated using the comprehensive basis under the liability method. This method involves recognising the tax effect of all timing differences between accounting and taxable income as a deferred tax asset or liability in the statement of financial position. The future tax benefit or provision for deferred tax is stated at the income tax rates prevailing at balance date.

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

### Comparative Figures

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

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

	Consolidated		Parent Company	
	Excl PPP	Incl PPP	2003	2002
	2003	2002	\$000	\$000
Operating (deficit)/surplus before taxation has been determined after				
(i) <b>Crediting as income:</b>				
<b>Sales revenue</b>				
Petroleum sales	<b>4,310</b>	13,913	–	–
<b>Other revenue</b>				
Interest received from:				
Other short term securities	<b>327</b>	331	<b>356</b>	284
Associate and other companies	–	37	–	–
Gain on sale of investment in partly owned subsidiary	–	5,418	–	–
Gain on sale of investment in resource company	<b>22</b>	84	<b>22</b>	84
In specie dividend received	–	119	–	119
<b>Total revenue</b>	<b>4,659</b>	19,902	<b>378</b>	487

Petroleum sales revenue of \$4,310,000 (2002: \$13,913,000) represents the group's share of revenue from the Ngatoro oil field (onshore Taranaki). The comparative figure includes revenue from Pan Pacific of \$7,818,000.

**(ii) Charging as expenses:**

Amortisation of development expenditure	<b>526</b>	1,460	–	–
Directors' fees	<b>91</b>	128	<b>91</b>	113
Exchange losses	<b>142</b>	411	<b>114</b>	384
Fees paid to parent company auditors	<b>77</b>	79	<b>77</b>	50
Fees paid to parent company auditors for other services	<b>25</b>	62	<b>25</b>	–
Fixed asset depreciation	<b>105</b>	968	–	–
Loss on sale of investment in partly owned subsidiary	–	–	–	741
Operating expenditure	<b>2,857</b>	8,630	<b>1,153</b>	653
Petroleum and coal exploration expenditure written off or down to valuation	<b>1,577</b>	6,548	–	–
Provision against investment in subsidiaries	–	–	<b>223</b>	8,304
Provision for restoration	–	179	–	–
Write-back of provision against intercompany advances	–	–	–	(21,453)
Write-back of provision against investments	–	(490)	–	(490)
Write-down of provision against advance to associate	–	72	–	–

**3. MINORITY INTEREST**

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



**4. SHAREHOLDERS' EQUITY**

	Note	Consolidated				Parent Company			
		2003 Number of Shares 000s	2003 \$000	2002 Number of Shares 000s	2002 \$000	2003 Number of Shares 000s	2003 \$000	2002 Number of Shares 000s	2002 \$000
<b>Reported paid in share capital</b>									
Paid in share capital – opening balance		121,255	54,176	120,201	71,920	121,255	54,176	120,201	71,920
Shares issued pursuant to share purchase plan/private placement	(i)	12,696	4,380	–	–	12,696	4,380	–	–
Shares bought back and cancelled during year pursuant to Scheme	(v)	–	–	(29,506)	(17,653)	–	–	(29,506)	(17,653)
Share subdivision	(v)	–	–	30,701	–	–	–	30,701	–
Other shares cancelled	(iii)	–	–	(321)	(192)	–	–	(321)	(192)
Shares issued pursuant to 2002 options exercised	(iv)	–	–	180	101	–	–	180	101
		<b>133,951</b>	<b>58,556</b>	121,255	54,176	<b>133,951</b>	<b>58,556</b>	121,255	54,176
Options issued during the year	(ii)	–	1,443	–	–	–	1,443	–	–
Treasury share elimination	(v)	(5,864)	(2,794)	(5,864)	(2,794)	(5,864)	(2,794)	(5,864)	(2,794)
Paid in share capital-closing balance		<b>128,087</b>	<b>57,205</b>	115,391	51,382	<b>128,087</b>	<b>57,205</b>	115,391	51,382
<b>Reserves</b>									
Retained (deficit)/reserves brought forward			(21,023)		(27,857)		(57,277)		(74,035)
Net (deficit)/surplus for the year			(756)		1,486		(1,304)		11,019
Elimination of accumulated losses									
• on shares cancelled during the year pursuant to Scheme	(v)		–		5,666		–		5,666
• on other shares cancelled during the year	(iii)		–		73		–		73
Transfer from foreign currency translation reserve			–		(391)		–		–
Retained (deficit)/reserves carried forward			<b>(21,779)</b>		(21,023)		<b>(58,581)</b>		(57,277)
<b>Share revaluation reserve:</b>									
Opening balance			–		–		6,465		1,551
Write down of investment in subsidiary			–		–		–		(1,262)
							<b>6,465</b>		289
Write back of previous impairment			–		–		–		6,176
Closing balance			–		–		<b>6,465</b>		6,465
<b>Asset revaluation reserve:</b>									
Opening and closing balance			<b>2,891</b>		2,891		–		–
<b>Foreign currency translation reserve:</b>									
Opening balance			–		(325)		–		–
Effect of exchange rate change on opening balance of Pan Pacific			–		(66)		–		–
Transfer to retained (deficit) due to disposal of Pan Pacific	(vi)		–		391		–		–
Closing balance			–		–		–		–
<b>Total shareholders' equity</b>			<b>38,317</b>		33,250		<b>5,089</b>		570

**Notes:**

- (i) During the year pursuant to a share purchase plan and a private placement, the company issued 12,695,866 ordinary shares, at NZ\$34.5 cents per share for New Zealand shareholders and A\$32.1 cents for Australian shareholders.
- (ii) During the year the company issued 72,177,752 options (2005 options) at an issue price of NZ\$0.02 cents. Each option entitles the holder to subscribe for one share in the capital of the company at an issue price of NZ\$0.60 cents exercisable any time up to and including 30 June 2005.
- (iii) During 2002 the company received distributions of 320,717 NZOG shares from a previously related entity. On receipt the company cancelled the NZOG shares which had a paid in capital amount of \$192,000 based on the average paid up amount per share of 59.83 cents, together with related accumulated losses of \$73,000.
- (iv) During 2002 179,597 options were exercised by option holders resulting in the issue of 179,597 new ordinary shares at a price of \$0.56 each, representing cash consideration of \$101,000. The remaining 80,024,649 NZOG 2002 options not exercised, expired on 30 June 2002.
- (v) On 19 December 2001 pursuant to a Scheme of Arrangement ('Scheme') 29,505,698 NZOG shares were cancelled with a paid in capital amount of \$17,653,000, based on the average paid up amount per share of 59.83 cents, together with related accumulated losses of \$5,666,000. The NZOG shares were then subdivided to restore shareholders to the same NZOG shareholding as they held before the share cancellation. As a result of the subdivision the number of NZOG treasury shares increased from 4,669,200 to 5,864,515.
- (vi) Due to the deconsolidation of Pan Pacific as at 19 December 2001 the foreign currency translation reserve of \$391,000 was transferred to retained (deficit) reserves in the 2002 year.
- (vii) All shares issued are fully paid. Each issued share is entitled to one vote.

**5. SHORT TERM SECURITIES AND CASH DEPOSITS**

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
Bank	2,102	2,566	1,020	46
Cash on deposit	5,802	4,596	5,803	4,596
	<b>7,904</b>	<b>7,162</b>	<b>6,823</b>	<b>4,642</b>

Included in cash on deposit are US\$ balances of \$391,000 – NZ\$670,000 (2002: US\$473,000, NZ\$972,000).

**6. RECEIVABLES**

	Note	Consolidated		Parent Company	
		2003	2002	2003	2002
		\$000	\$000	\$000	\$000
<b>Current receivables</b>					
Trade receivables	(i)	1,087	961	81	190
Interest receivable		75	20	106	20
Advances to associate		322	216	216	216
		<b>1,484</b>	<b>1,197</b>	<b>403</b>	<b>426</b>
<b>Non-current receivables</b>					
Advances to subsidiaries	(ii)	–	–	803	724

**Notes:**

- (i) Included in trade receivables is US\$176,000 – NZ\$302,000 (2002: US\$185,000, NZ\$375,000) which is not hedged.
- (ii) Inter-group advances between wholly owned subsidiaries and the parent are on interest free terms and no repayment terms have been arranged.

**7. INVENTORIES**

	Consolidated		Parent Company	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Field operation consumables	442	503	–	–
Finished goods (oil stock)	268	–	–	–
	<b>710</b>	<b>503</b>	<b>–</b>	<b>–</b>

**8. INVESTMENTS IN RESOURCE COMPANIES**

	Consolidated		Parent Company	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>Current</b>				
Shares at book value – listed company	–	1,264	–	1,264
Less provision for diminution in value	–	(754)	–	(754)
	–	510	–	510
Market value	–	530	–	530
<b>Non-current</b>				
Shares at book value – listed company	962	962	40	40
Market value	1,220	1,034	60	45

**9. INVESTMENTS IN SUBSIDIARY AND ASSOCIATED COMPANIES**

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Investment in associate – unlisted shares	(i)	2,719	2,719	2,719	2,719
Investment in subsidiaries		–	–	75,719	75,719
Provision for diminution		–	–	(8,526)	(8,303)
		–	–	67,193	67,416

**Notes:**

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

**10. DISPOSAL OF SUBSIDIARY**

As at 30 June 2002 the consolidated assets and liabilities do not include the previously owned subsidiary Pan Pacific due to de-consolidation of that company as a result of NZOG's distribution of 115,256,172 Pan Pacific shares on 19 December 2001, pursuant to the Scheme (Note 4(v)). The distribution was at a deemed sales price of 10.4 cents per Pan Pacific share giving rise to a gain for the group of \$5,418,000 (parent loss of \$741,000). The gain of \$5,418,000 represents the difference between fair value of the shares at the date of disposal and the cost of the shares to the group less the accumulated losses recognised to the date of disposal. In consideration for the shares NZOG shareholders agreed to sell back 29,505,698 NZOG shares. These NZOG shares and \$5,666,000 of related accumulated losses were subsequently cancelled. The financial effect of the scheme was to reduce the NZOG group equity (and net assets) by \$12,878,000 (as represented below). Shareholders equity was reduced by \$17,653,000. At 30 June 2003 NZOG holds a 4.8% interest in Pan Pacific.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

### 11. FIXED ASSETS

	Consolidated		Parent Company	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
(i) <b>Production assets</b>				
Cost	1,410	1,410	–	–
Accumulated depreciation	(1,237)	(1,176)	–	–
Book value	<u>173</u>	234	–	–
(ii) <b>Other fixed assets</b>				
Cost	585	610	–	–
Accumulated depreciation	(431)	(434)	–	–
Book value	<u>154</u>	176	–	–
<b>Book value of fixed assets</b>	<u>327</u>	410	–	–



## 12. JOINT VENTURES

NZOG group interests held at 30 June 2003, in 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:

	Note	Consolidated		Parent Company	
		Percentage Interest		Percentage Interest	
		2003	2002	2003	2002
		%	%	%	%
<b>Licence (Joint Venture)</b>					
PML 38146 (Kupe)		19.0	19.0	—	—
PMP 38148 (Ngatoro)		35.4	35.4	—	—
PEP 38460 (West Maui)		20.0	40.0	—	—
PEP 38472 (West Kupe)		50.0	50.0	—	—
PEP 38478 (Mangatoa)	(i)	50.0	—	—	—
PEP 38718 (Tuihu)	(ii)	20.0	—	—	—
PEP 38728 (Makino)		8.0	5.0	—	—
PEP 38729 (Opito)		75.0	75.0	—	—

The financial statements of all joint ventures are unaudited.

### Notes:

- (i) A 50% participating interest in PEP 38478 (Mangatoa) was acquired on 31 August 2002.
- (ii) A 20% participating interest in PEP 38718 (Tuihu) was acquired on 12 March 2003.

The contribution made by joint ventures to group results was to increase revenues by \$4,310,000 (2002: \$13,913,000) and expenses by \$2,862,000 (2002: \$15,628,000).

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

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<b>Current Assets</b>				
Short term securities and cash deposits	541	1,827	—	—
Trade receivables	31	28	—	—
Finished goods (oil stock)	206	—	—	—
Field operation consumables	504	503	—	—
<b>Non-Current Assets</b>				
Fixed assets	—	234	—	—
Petroleum interests	20,734	18,230	—	—
<b>Total Assets</b>	<b>22,016</b>	<b>20,822</b>	<b>—</b>	<b>—</b>
<b>Current Liabilities</b>				
Creditors and borrowings	2,027	2,824	—	—
<b>Non-Current Liabilities</b>				
Provisions	562	562	—	—
<b>Total Liabilities</b>	<b>2,589</b>	<b>3,386</b>	<b>—</b>	<b>—</b>
<b>Net Assets held in Joint Ventures</b>	<b>19,427</b>	<b>17,436</b>	<b>—</b>	<b>—</b>

**13. PETROLEUM AND COAL INTERESTS**

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<i>Petroleum production – Ngatoro PML 38148</i>		1,475	2,159	–	–
<i>Petroleum and coal exploration and evaluation expenditure</i>					
Petroleum mining licence – <i>Kupe PML 38146</i>	(i)	14,257	14,175	–	–
Petroleum exploration permits		5,002	1,896	–	–
<i>Coal mining licence – Pike River MP 41453</i>	(ii)	10,814	9,830	–	–
Total exploration and evaluation expenditure		<b>30,073</b>	25,901	–	–
<b>Total Petroleum and Coal Interests</b>		<b>31,548</b>	28,060	–	–

**Notes:**

- (i) Costs are carried forward in respect of the Kupe project (PML 38146). The actual amount recoverable is dependent upon a number of factors which are uncertain or tentative at balance date and which may be subject to change. Such factors include the 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 costs carried in respect of the Kupe project are recoverable, on the basis Kupe field is expected to proceed to development.
- (ii) Coal exploration and evaluation expenditure relates to partly owned subsidiary PRCC. The amount carried in the financial statements is supported by financial studies and pricing of equity issued by PRCC to third party investors during the year ended 30 June 2002. PRCC requires access through conservation land and a water discharge resource consent, as pre-requisites to enable development to proceed. The directors believe that the carried costs are recoverable on the basis that the Pike River mine is expected to proceed to development.

**a) Petroleum Reserves**

	Crude Oil & Natural Gas Liquids (Million Barrels)		Natural Gas (Billion Cubic Feet)	
	2003	2002	2003	2002
<b>Undeveloped – Kupe</b>				
Proven and probable reserves	5.8	5.8	50.1	50.1
<b>Developed – Ngatoro</b>				
Proven and probable reserves	0.2	0.3	0.4	0.9

**b) Coal Reserves**

	Coal (Million Tonnes)	
	2003	2002
<b>Undeveloped – Pike River</b>		
Proved and probable	15.5	15.5

**Notes:**

- (i) Proven petroleum 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) Ngatoro reserves estimates do not include oil that may be recovered by NZOG upon implementation of the planned waterflood project, of approximately 0.6 million barrels (NZOG share).
- (iii) Coal reserves are the estimated quantities of coal which are expected with reasonable certainty to be recoverable based on a financial study (March 2002) and under existing economic and operating conditions. Proved reserves have a higher degree of confidence of economic

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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) Petroleum and coal reserves are reported in accordance with Section 10.11 and Section 10.12 respectively, of the New Zealand Stock Exchange listing rules. Petroleum reserves accurately reflect information compiled by the Company's Exploration Manager, Dr Eric Matthews, PhD, MSc, Bsc. Coal reserves accurately reflect information compiled by an engineering consultant, Mr Graeme Duncan, BE Mining (Hon), M. Aus IMM.
- (v) All reserves are unaudited.

### 14. OTHER NON-CURRENT ASSETS

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
Deferred tax asset	18	68	117	—	—
Security deposits	22	86	71	—	—
		<b>154</b>	<b>188</b>	<b>—</b>	<b>—</b>

### 15. CREDITORS

	Consolidated		Parent Company	
	2003 \$000	2002 \$000	2003 \$000	2002 \$000
Trade creditors	3,355	4,211	262	469
Owing to associate companies	360	238	—	—
	<b>3,715</b>	<b>4,449</b>	<b>262</b>	<b>469</b>

### 16. PROVISIONS AND NON-CURRENT LIABILITIES

		Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>Current</b>					
Employee leave entitlements	(ii)	127	311	—	—
Taxation		—	59	—	—
Other		39	39	38	37
		<b>166</b>	<b>409</b>	<b>38</b>	<b>37</b>
<b>Non-Current</b>					
Restoration	(i)	562	562	—	—
Employee leave entitlements	(ii)	63	47	—	—
Advances from wholly owned subsidiary companies to parent		—	—	72,592	75,401
		<b>625</b>	<b>609</b>	<b>72,592</b>	<b>75,401</b>

#### Notes:

#### (i) Movements in restoration provision

Opening balance	562	3,372	—	—
Charge to operating surplus	—	179	—	—
Deconsolidation of Pan Pacific	—	(2,989)	—	—
Closing balance	<b>562</b>	<b>562</b>	<b>—</b>	<b>—</b>

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<b>(ii) Movements in employee provision</b>				
Opening balance	358	226	—	—
(Release)/charge to operating surplus	(171)	132	—	—
Closing balance	187	358	—	—

## 17. FINANCIAL INSTRUMENTS

### Foreign Exchange Risk

The group operates United States dollar bank accounts for oil sales proceeds as disclosed in note 5.

### Credit Risk

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

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

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

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

### Fair Values

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

Estimated fair values, based upon net realisable value, of the group's remaining financial instruments at 30 June 2003 are as follows:

	2003 Carrying Value \$000	2003 Fair Value \$000	2002 Carrying Value \$000	2002 Fair Value \$000
<b>Consolidated</b>				
Investments in resource companies	962	1,220	1,472	1,564
Security deposits	86	86	71	71
<b>Parent Company</b>				
Investments in resource companies	40	60	550	575

### Interest Rate Risk

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

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

All other financial instruments are non-interest bearing.

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

New Zealand Oil & Gas Limited and wholly owned subsidiaries have tax losses carried forward at 30 June 2003 of \$54,154,000 (2002: \$47,944,000). The net future income tax benefit of these tax losses is not included as an asset in the statement of financial position as the benefit is not virtually certain of being realised.

**(b) Consolidated and Parent**

	Note	Consolidated		Parent Company	
		2003 \$000	2002 \$000	2003 \$000	2002 \$000
<b>i) Income tax expense</b>					
Operating (deficit)/surplus before taxation		(701)	1,958	(1,304)	11,019
Income tax (benefit)/expense at 33%		(231)	646	(430)	3,636
<b>Adjusted for tax effect of:</b>					
Permanent differences New Zealand		247	(311)	430	(3,636)
		16	335	–	–
<b>Consolidated from Pafule and Pan Pacific:</b>					
Net timing differences		–	(33)		
Permanent differences		1	(6)		
Difference in foreign tax rates		(2)	(31)		
Income tax expense on operating surplus before tax items		15	265		
Tax losses not brought to account		31	–		
Add/(less):					
Income tax under/(over) provided in prior year		18	(128)		
<b>Income tax expense attributable to operating surplus</b>		<b>64</b>	<b>137</b>		
<b>ii) Deferred tax liability (consolidated from Pafule and Pan Pacific)</b>					
Opening balance		–	1,776		
Movement during the year		–	(1,776)		
Exchange movement during the year		–	–		
Closing balance		–	–		
<b>iii) Deferred tax asset (consolidated from Pafule and Pan Pacific)</b>					
Opening balance		117	1,012		
Movement during the year		(49)	(888)		
Exchange rate movement during the year		–	(7)		
Closing balance		68	117		
<b>iv) Taxation losses not taken into account</b>					
Taxation losses not recognised					
• New Zealand	(i)	54,154	47,944	26,760	26,258

**Notes:**

- (i) The value of taxation losses not brought to account at 30 June 2003 is conditional on the relevant group companies continuing to meet the requirements of New Zealand tax legislation.



- (ii) The taxation losses above include timing differences of \$3,747,000 (2002: \$4,464,000) primarily relating to exploration, evaluation and development expenditures which are expected to become available as deductions in future years.

## 19. RELATED PARTY DISCLOSURES

Related parties of the company include those entities identified in note 12 and 23 as subsidiaries, joint ventures and associates.

Material transactions with related parties during the year are set out in Notes 2, 4, 6, 9, 10, 12, 19, 20 and 23. There are no material balances due to or from related parties at 30 June 2003.

During the year the group made a payment to Mr R A Radford in respect of retirement benefits due under a previous contract of employment, which crystallised as a result of a third party termination of that contract in a prior year. The amount, which was provided in the prior years financial statements, was \$161,000 and all other matters concerning responsibilities of the third party and the company under the relevant contract were determined without cost to the company.

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

## 20. EMPLOYEE SHARE OWNERSHIP PLAN

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

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

	NZOG Shares		2005 Options	
	2003 Number 000	2002 Number 000	2003 Number 000	2002 Number 000
Allocated to employees				
• Options to purchase	5,278	5,314	–	–
• Savings shares	764	764	–	–
Unallocated	1,200	1,164	1,355	1,355
	<b>7,242</b>	<b>7,242</b>	<b>1,355</b>	<b>1,355</b>
As a percentage of total reported capital	5.7%	6.3%		

#### Notes:

- Other than the above option allocations, no NZOG securities held in the ESOP are subject to put or call options, nor are the NZOG securities used as security for borrowings by the NZOG group or any other person.
- The NZOG Board's Remuneration Committee (which comprises only non-executive directors) nominates employees to participate in the ESOP and determines the numbers and exercise prices of options to be granted. Exercise prices are set at a minimum to market value at date of granting, to which an escalation factor generally applies.
- In 2002, pursuant to the Scheme referred to in Note 4(v) and 10, all employee participants in the ESOP who had been allocated rights to purchase existing issued NZOG shares, were granted equal numbers of rights to purchase Pan Pacific shares which were received for account of the ESOP. Accordingly 5,348,000 PPP shares were subject to employee option rights at 30 June 2003 (2002:5,314,000). The exercise prices previously relating to NZOG shares, were split between the ex-distribution NZOG shares and the Pan Pacific shares in the ratio 74.4:25.6 in accordance with the values set out in the Scheme document. 1,342,593 unallocated Pan Pacific shares were held by the ESOP at 30 June 2003 (2002: 1,377,000).

### b) Funding

NZOG group holds redeemable preference shares in Nominees, at a cost of \$3,750,000, (book value \$2,719,000) which can be redeemed upon the company giving 60 days notice, from uncommitted funds held by Nominees from the exercise of options or other available sources which Nominees determines is reasonably available.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Advances of \$216,000 (2002: \$216,000) are due to the NZOG group from Nominees at a nil rate of interest and are repayable on demand. No demand for repayment of these advances has been made.

Funding by employees to acquire saving shares amounts to \$297,595 (2002: \$297,595).

	Consolidated		Parent Company	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<b>Investment and advances</b>				
Investment in shares	2,719	2,719	2,719	2,719
Advances	216	216	216	216
	<b>2,935</b>	<b>2,935</b>	<b>2,935</b>	<b>2,935</b>

### (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	
	2003	2002	2003	2002
	\$000	\$000	\$000	\$000
<b>(i) Financial Position</b>				
<b>Equity</b>				
Share capital			3,750	3,750
Retained deficit			(1,328)	(1,266)
			<b>2,422</b>	<b>2,484</b>
<b>Assets</b>				
Securities				
• allocated	2,236	2,849	2,061	2,061
• unallocated	538	667	664	705
	<b>2,774</b>	<b>3,516</b>	<b>2,725</b>	<b>2,766</b>
Less provision for diminution in value	–	–	(153)	(153)
	<b>2,774</b>	<b>3,516</b>	<b>2,572</b>	<b>2,613</b>
Bank	69	52	69	52
Debtors	8	98	8	98
	<b>2,851</b>	<b>3,666</b>	<b>2,649</b>	<b>2,763</b>
<b>Less Liabilities</b>				
Advances due to NZOG	(216)	(216)	(216)	(216)
Creditors	(11)	(63)	(11)	(63)
	<b>(227)</b>	<b>(279)</b>	<b>(227)</b>	<b>(279)</b>
<b>Net Assets</b>	<b>2,624</b>	<b>3,387</b>	<b>2,422</b>	<b>2,484</b>
<b>(ii) Financial Performance</b>				
Interest income			2	9
Accounting and legal fees			11	29
Write-back provision for diminution in value			–	(1,493)
Loss on sale of securities			–	1,256
Other			3	–

In 2002 two of the NZOG ESOP trusts were wound-up and the assets, being NZOG shares and options were sold to the remaining trust. This sale crystallised a loss of \$1,235,000 which had previously been provided for. The previous provision for diminution in value of \$1,493,000 was consequently reversed.

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

## 21. GEOGRAPHICAL SEGMENTS

	New Zealand		Australia		Consolidated	
	2003	2002	2003	2002	2003	2002
	\$000	\$000	\$000	\$000	\$000	\$000
Sales revenue (gross)	4,310	6,095	–	7,818	4,310	13,913
Net (deficit)/surplus for the year	(765)	1,153	–	333	(765)	1,486
Total assets	45,808	41,711	–	–	45,808	41,711

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

## 22. COMMITMENTS AND CONTINGENCIES

### Capital Expenditure Commitments

At 30 June 2003 the group has capital expenditure commitments of \$nil (2002: \$nil).

### Exploration Commitments

- 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.
- Security deposits of \$86,000 (2002: \$71,000) are held subject to licensed work programme commitments being met.
- The company has committed to drilling the Tuihu prospect at an estimated cost to the company of \$1,180,000.

### Debts Owing to the Company

The group has commenced legal proceedings to recover a debt due to the company at balance date. The Directors believe the debt due will be recovered in full.

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

## 23. SUBSIDIARY COMPANIES AND ASSOCIATES

### Wholly Owned Subsidiary Companies

ANZ Resources Pty Limited [see note (i)]  
 Australia and New Zealand Petroleum Limited  
 Australia & New Zealand Petroleum Limited [see note (i)]  
 Curdridge Investments Limited  
 Delta Petroleum Limited  
 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	
		2003 %	2002 %
<b>Partly Owned Subsidiaries</b>			
Pafule Pty Limited	(i)	<b>60</b>	60
Pike River Coal Company Limited	13(ii)	<b>72</b>	72
<b>Associate Companies</b>			
NZOG Nominees Limited	20	<b>50</b>	50

**Notes:**

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

**24. EARNINGS PER SHARE**

	2003 Cents	2002 Cents
Basic earnings per share	<b>(0.6)</b>	1.3
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic earnings per share	<b>124,671,142</b>	115,323,562
Diluted earnings per share	<b>0.7</b>	1.9
Weighted average number of ordinary shares and options outstanding during the year used in the calculation of diluted earnings per share	<b>196,998,894</b>	187,651,314

# AUDIT REPORT



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

We have audited the financial statements on pages 10 to 31. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2003. This information is stated in accordance with the accounting policies set out on pages 14 to 17.

### 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 2003 and the results of their operations and cash flows for the year ended on that date.

### Auditors' responsibilities

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

### Basis of opinion

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

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

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

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

### Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 10 to 31:
  - comply with New Zealand generally accepted accounting practice;
  - give a true and fair view of the financial position of the company and group as at 30 June 2003 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 29 August 2003 and our unqualified opinion is expressed as at that date.

# CORPORATE GOVERNANCE STATEMENT

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

## Board of Directors and its Committees

The board is responsible for the overall corporate governance of the company including the strategic direction, determination of policy and matters of finance, approval of contracts and expenditures and monitoring of management's achievement of the board's instructions. Each director has the right to seek independent professional advice in relation to matters arising in the conduct of his duties, at the company's expense, subject to prior approval of the chairman, which is not to be unreasonably withheld. The board has established two committees, being the audit committee and the remuneration committee, to assist in the execution of its responsibilities.

The number of directors is specified in clause 34.1 of the Constitution as a minimum of three up to a maximum of seven. At least two directors must be persons ordinarily resident in New Zealand.

	POSITION	EXPERTISE
Mr R A Radford <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 D R Scoffham, <i>MA, MSc</i> <i>appointed 27 June 2002</i>	non-executive	worldwide oil & gas exploration

## Audit Committee

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

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

access to the committee chairman.

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

## Remuneration Committee

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

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

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

## Health, Safety and Environment Policy

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

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



# STATUTORY AND OTHER INFORMATION

## Directors' Remuneration

The total remuneration and other benefits to directors for services to all group companies (including payments made by partly owned and wholly owned subsidiary companies) in all capacities during the year ended 30 June 2003 was \$296,628 being to or in respect of Messrs R A Radford \$205,378; S J Rawson \$28,750; P G Foley \$28,750; and R F Meyer \$33,750.

## Employees' Remuneration

During the year ended 30 June 2003, two group employees (not including directors) received remuneration (including payments made by partly owned and wholly owned subsidiary companies) of at least \$100,000, one employee being in each of the following income bands: \$110,000-\$119,999; \$120,000-\$129,999.

## Directors' Securities Interests and Dealings

The interests of directors (and their associates) in equity securities of the company at 30 June 2003 were:

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

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

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

There were no changes during the year in respect of director's relevant interests in shares of the company.

## Transactions in which Directors were interested.

Nil

## Interest Disclosures

During the year ended 30 June 2003 there were no new disclosures of interest by directors entered into the Interests Register maintained by the company.

## 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 taken by them as directors and officers.

## Developments in Corporate Governance

With effect from 1 July 2003 new corporate governance rules and guidelines have been introduced by the Australian Stock Exchange. New rules and guidelines are also to be introduced by the New Zealand Stock Exchange. Full disclosure on compliance

with these new rules and guidelines will become a feature of annual reports from the 2004 year.

NZOG directors have considered these changes and are satisfied that NZOG already complies with the new rules. NZOG also complies with the new guidelines except where they are inappropriate for a company of NZOG's size.

## Substantial Shareholders

Substantial Shareholder notices as at 30 August 2003

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

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

\*\* Total issued capital includes treasury stock.

The above substantial shareholder notices were received pursuant to the Securities Amendment Act 1988. Under the provisions of that Act more than one party can hold a relevant interest in the same shares; and substantial shareholders are only required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities.

## Restrictions on the acquisition of NZOG Shares

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

# SHAREHOLDER AND OPTIONHOLDER INFORMATION

## Top 20 Shareholders on the register as at 30 August 2003

Name of Shareholder	Shareholding	% of Reported Capital*
Resources Trust Limited	9,526,901	7.4
NZOG Nominees Limited	7,142,422	5.6
Sik-On Chow	3,400,000	2.7
Chung King Tan	2,200,000	1.7
Merrill Lynch	1,294,979	1.0
C E & D P Boreham	1,234,710	0.9
Mehasu Pty Ltd	1,217,987	0.9
Peter Edward Radford	1,182,122	0.9
Robert Albert Boas	1,100,000	0.9
Ming Chow & Fook Kom Wong	1,050,000	0.8
ASB Nominees Limited	921,391	0.7
Franz Albert Buchler & Sina Maria Buchler	920,000	0.7
Edwin Alexander Craig	795,000	0.6
G M Robinson & D J Bradley	700,000	0.6
Tyrannus Holdings Ltd	688,076	0.5
Clara Shuk Fun Ma	675,625	0.5
A T Hopkins & A J Hopkins	665,000	0.5
Kum Hing So	662,318	0.5
Michael Walter Daniel	647,855	0.5
Rodney Fletcher Trowsdale	604,782	0.5
<b>Held in Treasury</b>		
New Zealand Oil & Gas Limited	5,864,515	

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

## Top 20 Optionholders on the register as at 30 August 2003

Name of Option holder	Optionholding	% of Total 2005 Options
Resources Trust Limited	6,085,858	8.4
Tubridgi Petroleum Pty Limited	3,144,915	4.4
Sik-On Chow	1,668,592	2.3
Chung King Tan	1,431,613	2.0
NZOG Nominees Limited	1,335,297	1.9
Robert Albert Boas	1,278,850	1.8
Murray Dann	1,246,000	1.7
Walker & Hall Fine Gifts Limited	918,789	1.3
C E Boreham & D P Boreham	977,812	1.4
Peter Edward Radford	889,841	1.2
Wairahi Holdings Limited	858,031	1.2
ASB Nominees Limited	787,836	1.1
Mehasu Pty Ltd	618,377	0.9
Roy Anthony Radford	611,767	0.8
Charles Brian Kidson	600,000	0.8
William John Wallace	590,000	0.8
Julie Matthews	572,624	0.8
Joy Jones	570,000	0.8
William Richard Treuren	552,027	0.7
G M Robinson & D J Bradley	500,000	0.7

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

## Securities on Issue

At 30 June 2003 New Zealand Oil & Gas Limited had the following securities on issue.

Reported Capital	128,086,817
Treasury Stock	5,864,515
<b>Total Ordinary Shares on issue</b>	<b>133,951,332</b>
 2005 Options	 72,177,752

## Voting Rights

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

## On-market Buy-back

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

## Trading Statistics

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

### Trading – 12 months ended 30 August 2003

	<b>NZX</b>	<b>NZX</b>
	<b>Shares (NOG)*</b>	<b>Options (NOGOC)*</b>
	<b>NZ\$</b>	<b>NZ\$</b>
Year's low-high	26c-41c	5.2c-15.5c
Year's total volume traded	18,173,314	14,007,738

### Trading – 12 months ended 30 August 2003

	<b>ASX</b>	<b>ASX</b>
	<b>Shares (NZO)*</b>	<b>Options (NZOOA)*</b>
	<b>A\$</b>	<b>A\$</b>
Year's low-high	20c-38c	4c-17.5c
Year's total volume traded	4,446,761	1,885,058

\*Trading codes

## Distribution of Holdings

*Ordinary Shares as at 30 August 2003*

<b>Holding</b>	<b>No of Shareholders</b>	<b>Total Shares</b>
1-1,000	6,468	2,796,252
1,001-5,000	4,196	10,553,088
5,001-10,000	1,237	9,845,605
10,001-100,000	1,566	43,798,732
100,001 and over	140	66,957,655
	<b>13,625</b>	<b>133,951,332</b>

*2005 Options as at 30 August 2003*

<b>Holding</b>	<b>No of Optionholders</b>	<b>Total Options</b>
1-1,000	1,658	900,699
1,001-5,000	1,634	4,314,170
5,001-10,000	500	3,875,190
10,001-100,000	683	21,212,746
100,001 and over	112	41,874,947
	<b>4,587</b>	<b>72,177,752</b>

A minimum holding as defined by the NZX listing rules is 1000 NZOG shares, and 1000 options. As defined by the ASX a marketable parcel is 1667 NZOG shares, and 1667 options (at the market price on 30 August 2003).

# 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  
D R Scoffham MA, MSc

## MANAGEMENT

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

## REGISTERED AND HEAD OFFICE

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

## SYDNEY BRANCH OFFICE

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

## AUDITORS

KPMG  
KPMG Centre, 135 Victoria Street  
Wellington, New Zealand

## SHAREHOLDER INFORMATION

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

### *New Zealand*

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

### *Australia*

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

For company information contact the company:

Toll free 0800-000-594 (within New Zealand) or (02) 9957 2177 (within Australia)

**Website: [www.nzo.co.nz](http://www.nzo.co.nz)**

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

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

MOVING  
DEVELOPMENTS  
FORWARD

## New Zealand Oil & Gas Limited

website: [www.nzo.co.nz](http://www.nzo.co.nz)

