

# nzog

New Zealand Oil & Gas Ltd



**Annual Report**

2010



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# Chairman's Review

Dear Shareholders,

Overall, the past financial year delivered positive results for the company. A major highlight was the commissioning of the offshore Kupe field, which began production of gas, light oil and LPG and contributed meaningfully to NZOG's revenues. In addition to this commencement of production, in July 2010 the petroleum reserves in Kupe were upgraded, with "proved and probable" (2P) reserves of gas increased by 8%, LPG by 5% and, most notably, oil reserves were upgraded by 27%. All of this bodes well for Kupe which, as a long-term producer, will provide NZOG with a significant income stream for 15-20 years.

The Tui oil fields also performed well during the 2009/2010 financial year, pretty much as forecast, although a workover of the Pateke producer well has temporarily reduced production rates since financial year-end.

Exploration drilling carried out during the year had disappointing results for all four wells, but that should not deter us. It was the "drill bit" that discovered both Tui and Kupe for the company and exploration remains a key focus for NZOG as one means of maintaining and increasing the company's reserves and profitability. In line with this approach, NZOG increased its holdings of exploration permits during the year and continues to develop new opportunities for discovery. This includes the very interesting Kaupokonui prospect, which has been identified in a permit NZOG acquired in January 2009 situated between the Kupe and Maari producing fields.

Aside from its mainstream oil and gas activities, during the year NZOG assumed a stronger position in associate company Pike River Coal Ltd, by investing additional funds into shares and by taking up a convertible bond. The Pike River coal mine development has proved much more challenging than was originally contemplated, but that fact does not detract from the first-class coking coal it produces and the value it will represent once into full steady-state production.

NZOG's 2009/2010 financial result was a loss of \$3.3 million. The key factors contributing to this result were: the gross profit from petroleum production at Kupe and Tui of \$67.6m, which was offset by exploration costs of \$30.7m, and unrealised currency losses at balance date of \$8.0m. Further, NZOG was required under accounting standards to record a portion of the loss experienced by associate company Pike River Coal Ltd, to the extent of \$11.5m.

However, NZOG's cash position remains strong and in the current financial year the company will benefit from a full 12 months of revenues from Kupe in addition to ongoing revenues from the Tui fields.

The directors have therefore decided to again make a payment of an annual dividend, which will be maintained at 5 cents per share. The dividend reinvestment plan introduced last year will continue to be available for those shareholders who wish to reinvest all or part of their dividend into additional shares in the company.

The management team and other senior staffing was strengthened further during the year under CEO David Salisbury. I am also very pleased to note the appointment of Mr Peter Griffiths as a director during the year following a long career with BP, latterly as New Zealand managing director. I believe Peter is an excellent addition to the Board.

Prof Ray Meyer will retire at the forthcoming annual meeting after 10 years as a director. Over that time Ray's input has been invaluable in ensuring the effectiveness of the Board and I extend my gratitude to him for his contribution.

I believe the outlook for NZOG remains very positive and I assure you the Board and management are working hard to deliver results.



**Tony Radford**  
Chairman

# CEO's Review

In the past year NZOG has worked hard to implement our two-pronged business strategy: to manage and maximise value extraction from our existing asset portfolio; while securing new value-adding business opportunities.

Both aspects of the strategy have posed challenges, seen disappointments and provided rewards.

## Getting the most out of what we've got

While NZOG is a minority partner in its two producing assets, Tui and Kupe, we actively manage our interests and contribute strongly to joint venture decision making. The past year has also seen NZOG take a more active role as Pike River Coal's largest shareholder and now largest debt holder.

### TUI

The Tui area oil fields have now produced more than 28 million barrels of oil – that's more than the original estimate of the total recoverable oil in the fields.

Approximately 22 million barrels in proved and probable (2P) reserves remain – NZOG's share being around 2.75 million barrels.

As expected, production rates from Tui are declining over time. Production for the financial year ended 30 June slightly exceeded the revised target, with 4.83 million barrels produced – NZOG's share 604,000 barrels.

During the year some technical modifications were made to the facilities to maximise the oil recovery rates, including improvements to the gas lift compression system. Further facility improvements are planned.

The Tui area oil fields have four producing wells – Tui 2-H, Tui 3-H, Amokura 2-H and

Pateke 3-H. In June 2010, production performance from Pateke 3-H declined and it was identified that repairs were needed to the artificial lift system. A workover was undertaken in August/September to allow this well to be brought back into production.

Within the Tui permit a number of other oil prospects have been identified. Between May and July 2010 two of these were drilled – Tui southwest and Kahu. Tui SW-2 encountered oil but in non-commercial quantities. Kahu-1 located the targeted Kahu valley feature but it contained no significant hydrocarbons.

The results were disappointing. In each case key geological risks identified in advance of drilling were encountered. Despite this commercial failure, the wells have added to our geological knowledge of the greater Tui area. A number of other prospects and leads remain within the permit block and site surveys have been completed over three potential future drilling targets.

### KUPE

Kupe has been the star performer of the last few years, but the long-term importance of Kupe to NZOG should not be underestimated. Kupe began producing in December 2009 and is expected to still be meeting some of New Zealand energy needs in 2025.

Kupe has been a major undertaking for NZOG, requiring patience, perseverance and a significant financial investment. The rewards are now being received.

Following a comprehensive commissioning period, Kupe went into permanent production in March 2010. By the end of the financial year, Kupe had produced 10 PJ of sales gas (NZOG's share 1.5 PJ), 1 million barrels of light oil (NZOG's share 150,000 barrels) and 32,000 tonnes of LPG (NZOG's share 4,800 tonnes).

During the year NZOG assisted the Operator to complete a comprehensive remodeling of Kupe reserves. This resulted in a significant upgrade of the initial proved and probable (2P) reserves. Gas reserves were increased by 8%, LPG reserves by 5% and light oil reserves by 27%. The oil is the most valuable of the three products, so this large increase in recoverable oil is particularly significant.

A project like Kupe, with multiple partners, multiple products and multiple customers, requires complex legal and commercial arrangements. We continue to put considerable effort into ensuring that NZOG's best interests are protected. This includes careful monitoring of the New Zealand Emissions Trading Scheme (ETS), to ensure we can comply with the minimum cost impact for the company.

NZOG believes that there are promising additional prospects within the Kupe permit area. NZOG is now working with the Operator on further geological and geophysical assessments of these structures, with the possibility that one or more could be drilled in the next few years.

### PIKE RIVER COAL LIMITED (PRC)

NZOG formed PRC in 1988, retained a 30% shareholding when it was floated in 2007, and has continued to support the mine through development and into initial production. This includes supporting a further equity issue in 2010.

NZOG has now contributed a total of NZ\$85 million in equity to PRC. At 31 July 2010, NZOG's shareholding in PRC had a market value of approximately NZ\$115 million. NZOG also has 17.3 million 2011 options in PRC and holds US\$29 million of debt through convertible bonds. NZOG earns an interest rate of 10% p.a. on these bonds.

PRC faced construction and commissioning delays during the year, reflecting a higher degree of project complexity than was originally anticipated. However, NZOG has commissioned its own technical and management reviews and believes that, despite the delays in the mine reaching full production, the fundamental value of the project remains intact.

With the mine now almost fully developed, the key success factor is operational performance. The original coal resource, reserves and forecast production levels have not significantly changed. The forecast annual production rates of approximately 1 million tonnes per annum remain achievable and the coal remains a highly attractive product in the global market. While the Pike River mine faces some further operational challenges before it achieves its potential, NZOG considers that it has a positive long term outlook.

NZOG has previously stated that when it is judged to be in the best interests of NZOG shareholders, NZOG will look to divest itself of its holding in PRC and redeploy the capital in its core business in the oil and gas sector. At this point no decision to sell has been made and any sales process, if initiated, is likely to take up to 9 months.

In the meantime, NZOG is committed to its investment in PRC and believes that PRC is taking the operational decisions necessary to get the mine operating at full production.

## Looking for growth opportunities

NZOG is committed to pursuing growth. We have built a team with strong technical and commercial capabilities, which allows us to actively and systematically look for sensible value-adding investments across the spectrum from exploration, to development assets, producing fields and corporate acquisitions.

## NEW ZEALAND EXPLORATION

Over the past year NZOG has continued to expand its exploration portfolio. We have established a strong presence in the northern region of the offshore Taranaki Basin. The Albacore-1 well was drilled in December 2009. While only traces of hydrocarbons were found we believe there is good remaining prospectivity in the region and further focused mapping work is underway.

NZOG has also developed a considerable presence in the southern offshore Taranaki Basin. A primary focus for us here is permit PEP 51311, which we hold at 100%. This permit contains a number of leads and prospects, including Kaupokonui, a stacked series of Miocene sands. The estimates of mean prospective resources are 200+ million barrels. A drilling plan has been prepared and a site survey has been undertaken over the proposed Kaupokonui drilling location. A commitment is required by January 2011 to drill a well within the following 12 months. NZOG is in discussions with companies who may be interested in participating in that drilling.

In May 2010, the seismic vessel Reflect Resolution acquired for NZOG over 600km of new seismic lines across the southern offshore Taranaki Basin, tied into previous wells. The new data will help us evaluate some of the key petroleum system elements. This comprehensive approach has not been carried out by any other company in New Zealand and gives NZOG an advantage in assessing the prospectivity of the area, including the Kaupokonui permit.

NZOG also has interests in the offshore Canterbury Basin. We are currently seeking to farm out some of our 40% stake in PEP 38259, which contains the Barque prospect. The permit also contains the Galleon well, which was drilled in 1986 and discovered what was at the time considered to be sub-commercial quantities of gas and light oil. The Barque prospect is considered to be structurally similar to but larger and more favourably located for oil and gas charge than Galleon.

In July 2010 the joint venture applied for a six month extension on the decision whether or not to commit to drilling an exploration well.

In May 2010 NZOG lodged a Priority In Time application with Crown Minerals for an area immediately to the north of PEP 38259. The application was not subject to any competing bids. The application is currently being processed by Crown Minerals and we expect to be awarded an exploration permit in due course.

NZOG's portfolio now includes 10 permits, plus the PIT application:

| Permit                  | NZOG Stake |
|-------------------------|------------|
| <b>Taranaki Basin</b>   |            |
| PMP 38158 Tui           | 12.5%      |
| PML 38146 Kupe          | 15%        |
| PEP 51311 Kaupokonui    | 100%       |
| PEP 51988 Mangaa        | 100%       |
| PEP 38491 Albacore      | 44%        |
| PEP 51558 Parihaka      | 20%        |
| PEP 38401 Hoki          | 10%        |
| PEP 38483 Bahamas       | 18.9%      |
| PEP 51321 Kahurangi     | 18.9%      |
| <b>Canterbury Basin</b> |            |
| PEP 38259 Barque        | 40%        |
| PIT Application         | 40%        |

NZOG had an active exploration programme in the past year, participating in the drilling of four wells – Albacore, Hoki, Tui SW and Kahu. None of these wells found commercial quantities of oil or gas. That is obviously disappointing, but does not mean they should not have been drilled. Working with other skilled and motivated companies, such as Westech, OMV, Todd Energy and AWE, NZOG used the best available science to identify good prospects, which, on a carefully risked basis, were worth drilling. We remain committed to exploration – while it often comes with high risk, it offers great rewards.

### OVERSEAS OPPORTUNITIES

New Zealand remains an attractive investment destination. However, the available opportunities going forward may not provide sufficient depth and breadth for a company of our size to be confident we can meet our growth objectives from New Zealand alone.

Our business strategy includes the goal of establishing one or two new core areas, in addition to offshore Taranaki. During the past year NZOG assessed a range of potential offshore investments. These included corporate deals, asset purchases and exploration acreage. Our very thorough screening process rejected most of these opportunities, generally because the prize was too small, or the risk too great. However, several overseas investment opportunities remain under consideration and we remain hopeful of progressing one or more in the current year.

## Sticking to the Strategy

NZOG is in the fortunate position of being able to look years into the future and see ongoing revenue streams from Tui and Kupe. These cashflows underpin the company's business strategy.

NZOG is pursuing growth off a solid base – optimising our existing assets and pursuing new opportunities. A clear highlight of the past year was Kupe coming into production with increased reserves. Unfortunately, we didn't have an exploration drilling success or secure a major new asset. But the growth strategy remains sound. We have a continuous screening process that is working well. We are targeting opportunities that are robust and comfortably fit within our financial capability. NZOG has taken a careful, prudent approach, and will continue to do so.

Our criteria for investment remain the same:

- Proven hydrocarbon systems
- Quality business partners with sound technical skills and financial strength
- Suitably attractive fiscal regime
- Access to markets and infrastructure
- Manageable regulatory and political risk
- Manageable financial exposure
- Near term payback as opposed to long term horizons
- Future growth and upside potential

Within these parameters we continue to identify a range of potential investments and we are working hard to secure the best of them.

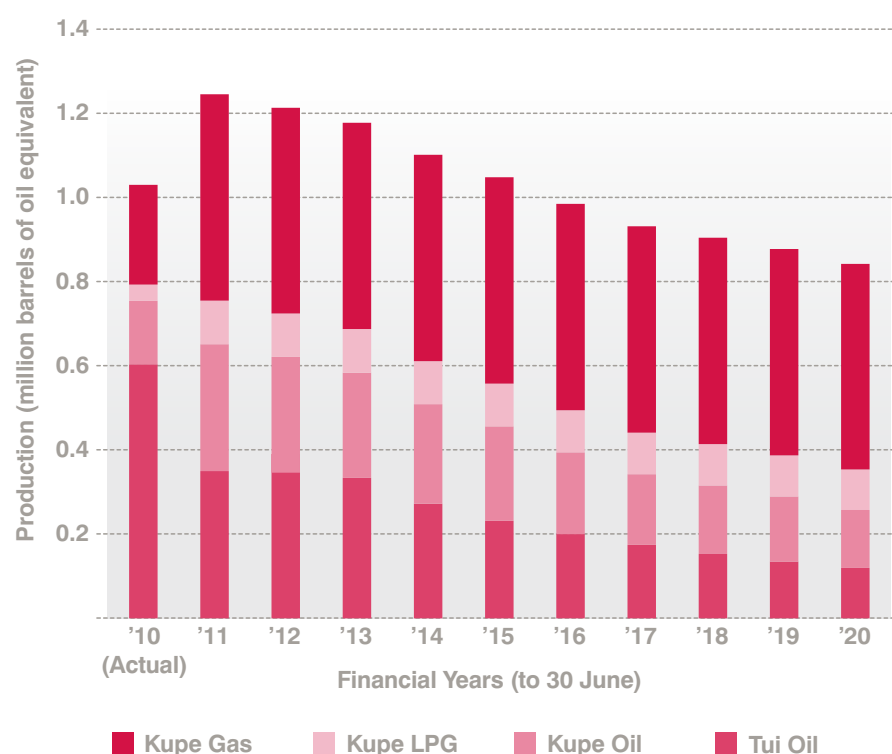
We are acutely aware the NZOG's recent share price performance will have dismayed many of our shareholders. Declining share values around the world – particularly in the oil and gas sector – together with the absence of drilling success, have had an impact. However, the underlying value of the company remains strong. This comes from our revenue producing assets of Kupe and Tui, our investments in Pike River Coal and Pan Pacific Petroleum, our healthy cash balance and the potential upside from our exploration portfolio. This underlying strength is recognised by all of the analysts who cover us. While we might all agree that NZOG is currently undervalued, it is impossible to predict how the many vagaries of the market will play out. However, I can assure you that the company will continue to strive to have its real value recognised.



**David Salisbury**  
Chief Executive

# Reserves and Production

## NZOG Forecast Production



Source: Production forecasts have been derived from information provided by the Tui and Kupe Operators. Barrels of oil equivalent calculations for gas and LPG have been made consistent with Society of Petroleum Engineers (SPE) guidelines.

## NZOG Reserves

| Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2010 | Oil & Condensate (million barrels) | Natural Gas (petajoules) | LPG (kilotonnes) | Million Barrels of Oil Equivalent* |
|----------------------------------------------------------------|------------------------------------|--------------------------|------------------|------------------------------------|
| Tui                                                            | 2.8                                |                          |                  | 2.8                                |
| Kupe                                                           | 2.6                                | 39.5                     | 162              | 10.2                               |
| Total                                                          |                                    |                          |                  | 13.0                               |

\*Million barrels of oil equivalent has been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion factors consistent with Society of Petroleum Engineers (SPE) guidelines.

Proven 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 50% chance or better of being technically and economically producible.

Oil and gas reserves are reported as at 30 June 2010, and in accordance with Section 10.11 of the NZX Listing Rules. This Reserves Statement has been compiled by NZOG's Reservoir Engineering Manager, Markus Schuh (who has a MSc. in Reservoir Engineering from Mining University, Leoben, Austria), and accurately reflects information supplied by the respective joint venture Operators.

# New Zealand Oil & Gas Limited Financial Statements

for the year ended 30 June 2010

## Income Statement

For the year ended 30 June 2010

|                                                         | Notes | GROUP          |                | PARENT          |                |
|---------------------------------------------------------|-------|----------------|----------------|-----------------|----------------|
|                                                         |       | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000  | 2009<br>\$'000 |
| Revenue                                                 | 4     | 99,374         | 138,669        | -               | -              |
| Operating costs                                         | 5     | (31,804)       | (31,776)       | -               | -              |
| Gross profit                                            |       | 67,570         | 106,893        | -               | -              |
| Other income                                            | 4     | 736            | 220            | 677             | 220            |
| Exploration and evaluation costs expensed               | 18    | (30,697)       | (4,237)        | -               | -              |
| Other expenses                                          | 6     | (11,998)       | (14,127)       | (17,039)        | (9,574)        |
| Results from operating activities                       |       | 25,611         | 88,749         | (16,362)        | (9,354)        |
| Finance cost                                            | 7     | (11,276)       | (1,930)        | (7,015)         | (19)           |
| Finance income                                          | 7     | 2,263          | 25,228         | 12,887          | 82,881         |
| Net finance income/(costs)                              | 7     | (9,013)        | 23,298         | 5,872           | 82,862         |
| Share of loss from associates                           | 16    | (11,470)       | (3,914)        | -               | -              |
| <b>Profit/(loss) before income tax and royalties</b>    |       | <b>5,128</b>   | <b>108,133</b> | <b>(10,490)</b> | <b>73,508</b>  |
| Royalties expense                                       | 8     | (7,457)        | (23,796)       | -               | -              |
| Income tax expense                                      | 9     | (926)          | (31,131)       | (302)           | (899)          |
| <b>Profit/(loss) for the year</b>                       |       | <b>(3,255)</b> | <b>53,206</b>  | <b>(10,792)</b> | <b>72,609</b>  |
| <b>Profit/(loss) for the year attributable to:</b>      |       |                |                |                 |                |
| Equity holders of Parent                                |       | (3,255)        | 53,206         |                 |                |
|                                                         |       | (3,255)        | 53,206         |                 |                |
|                                                         |       | Cents          | Cents          |                 |                |
| <b>Earnings per share attributable to shareholders:</b> |       |                |                |                 |                |
| Basic earnings per share                                | 34    | (0.8)          | 13.7           |                 |                |
| Diluted earnings per share                              | 34    | (0.8)          | 13.7           |                 |                |
|                                                         |       | Cents          | Cents          |                 |                |
| <b>Net Tangible Asset Backing per share</b>             |       | <b>114</b>     | <b>128</b>     |                 |                |

The above Income Statement should be read with the accompanying notes on pages 13 – 42

# Statements of Comprehensive Income

For the year ended 30 June 2010

|                                                                    | Notes | GROUP           |                | PARENT          |                |
|--------------------------------------------------------------------|-------|-----------------|----------------|-----------------|----------------|
|                                                                    |       | 2010<br>\$'000  | 2009<br>\$'000 | 2010<br>\$'000  | 2009<br>\$'000 |
| <b>Profit/(loss) for the year</b>                                  |       | <b>(3,255)</b>  | 53,206         | <b>(10,792)</b> | 72,609         |
| <b>Other comprehensive income</b>                                  |       |                 |                |                 |                |
| Fair value gain/(loss) on available for sale financial asset       | 28    | <b>(25,396)</b> | 21,279         | -               | -              |
| Foreign currency translation differences                           | 28    | <b>(8,960)</b>  | 9,016          | -               | -              |
| Other comprehensive income for the year                            |       | <b>(34,356)</b> | 30,295         | -               | -              |
| <b>Total comprehensive income for the year</b>                     |       | <b>(37,611)</b> | 83,501         | <b>(10,792)</b> | 72,609         |
| <b>Total comprehensive income for the year is attributable to:</b> |       |                 |                |                 |                |
| Equity holders of the Parent                                       |       | <b>(37,611)</b> | 83,501         |                 |                |

The above Statement of Comprehensive Income should be read with the accompanying notes on pages 13 – 42

# Statement of Financial Position

As at 30 June 2010

|                                          |       | GROUP          |                | PARENT         |                |
|------------------------------------------|-------|----------------|----------------|----------------|----------------|
|                                          | Notes | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| CURRENT ASSETS                           |       |                |                |                |                |
| Cash and cash equivalents                | 11    | 142,404        | 174,753        | 107,606        | 145,616        |
| Receivables and prepayments              | 12    | 20,794         | 10,852         | 204,525        | 181,023        |
| Inventories                              | 13    | 140            | 637            | -              | -              |
| Current tax receivables                  |       | 1,842          | -              | 665            | -              |
| Derivative financial instruments         |       | -              | 190            | -              | -              |
| Total current assets                     |       | 165,180        | 186,432        | 312,796        | 326,639        |
| NON-CURRENT ASSETS                       |       |                |                |                |                |
| Convertible Bond                         | 14    | 39,933         | -              | -              | -              |
| Investments in associates                | 16    | 77,088         | 74,781         | -              | 3,671          |
| Evaluation and exploration assets        | 18    | 6,641          | 5,236          | 4,430          | 2,968          |
| Oil and gas assets                       | 19    | 257,673        | 242,281        | -              | -              |
| Property, plant and equipment            | 20    | 336            | 245            | 336            | 245            |
| Intangible assets                        | 21    | 166            | 105            | 166            | 105            |
| Other financial assets                   | 22    | 19,687         | 48,872         | 66,716         | 73,455         |
| Total non-current assets                 |       | 401,524        | 371,520        | 71,648         | 80,444         |
| Total assets                             |       | 566,704        | 557,952        | 384,444        | 407,083        |
| CURRENT LIABILITIES                      |       |                |                |                |                |
| Payables                                 | 23    | 20,797         | 29,353         | 1,361          | 1,168          |
| Borrowings                               | 24    | 3,217          | -              | -              | -              |
| Current tax liabilities                  |       | -              | 493            | -              | -              |
| Total current liabilities                |       | 24,014         | 29,846         | 1,361          | 1,168          |
| NON-CURRENT LIABILITIES                  |       |                |                |                |                |
| Borrowings                               | 24    | 59,588         | -              | -              | -              |
| Restoration and rehabilitation provision | 25    | 11,998         | 8,144          | -              | -              |
| Net deferred tax liability               | 26    | 24,265         | 23,170         | 1,141          | 839            |
| Total non-current liabilities            |       | 95,851         | 31,314         | 1,141          | 839            |
| Total liabilities                        |       | 119,865        | 61,160         | 2,502          | 2,007          |
| Net assets                               |       | 446,839        | 496,792        | 381,942        | 405,076        |
| EQUITY                                   |       |                |                |                |                |
| Share capital                            | 27    | 353,741        | 347,192        | 353,741        | 347,192        |
| Reserves                                 | 28    | (8,697)        | 25,571         | 6,831          | 6,743          |
| Retained earnings                        |       | 101,795        | 124,029        | 21,370         | 51,141         |
| Total equity                             |       | 446,839        | 496,792        | 381,942        | 405,076        |

The above Statement of Financial Position should be read with the accompanying notes on pages 13 – 42

# Statement of Changes in Equity

For the year ended 30 June 2010

| Attributable to equity holders of New Zealand Oil & Gas Limited |       |                          |                    |                                |                        |
|-----------------------------------------------------------------|-------|--------------------------|--------------------|--------------------------------|------------------------|
| GROUP                                                           | Notes | Issued capital<br>\$'000 | Reserves<br>\$'000 | Retained<br>earnings<br>\$'000 | Total equity<br>\$'000 |
| <b>BALANCE AT 1 JULY 2008</b>                                   |       | 345,989                  | (5,002)            | 90,015                         | 431,002                |
| <b>Comprehensive income</b>                                     |       |                          |                    |                                |                        |
| Profit/(loss) for the year                                      |       | -                        | -                  | 53,206                         | 53,206                 |
| <b>Other comprehensive income</b>                               |       |                          |                    |                                |                        |
| Fair value gain/(loss) on available for sale financial assets   |       | -                        | 21,279             | -                              | 21,279                 |
| Foreign currency translation differences                        |       | -                        | 9,016              | -                              | 9,016                  |
| <b>Total comprehensive income</b>                               |       | -                        | 30,295             | 53,206                         | 83,501                 |
| <b>Transactions with owners</b>                                 |       |                          |                    |                                |                        |
| Shares issued                                                   |       | 1,203                    | -                  | -                              | 1,203                  |
| Share based payment                                             |       | -                        | 278                | -                              | 278                    |
| Dividend declared (5 cents per ordinary share)                  |       | -                        | -                  | (19,192)                       | (19,192)               |
| Supplementary dividend                                          |       | -                        | -                  | (610)                          | (610)                  |
| Foreign investor tax credit                                     |       | -                        | -                  | 610                            | 610                    |
| <b>Balance at 30 June 2009</b>                                  |       | 347,192                  | 25,571             | 124,029                        | 496,792                |
| <b>BALANCE AT 1 JULY 2009</b>                                   |       | 347,192                  | 25,571             | 124,029                        | 496,792                |
| <b>Comprehensive income</b>                                     |       |                          |                    |                                |                        |
| Profit/(loss) for the year                                      |       | -                        | -                  | (3,255)                        | (3,255)                |
| <b>Other comprehensive income</b>                               |       |                          |                    |                                |                        |
| Fair value gain/(loss) on available for sale financial assets   |       | -                        | (25,396)           | -                              | (25,396)               |
| Foreign currency translation differences                        |       | -                        | (8,960)            | -                              | (8,960)                |
| <b>Total comprehensive income</b>                               |       | -                        | (34,356)           | (3,255)                        | (37,611)               |
| <b>Transactions with owners</b>                                 |       |                          |                    |                                |                        |
| Shares issued                                                   |       | 6,549                    | -                  | -                              | 6,549                  |
| Transfer of expired share based payments during the period      |       | -                        | (280)              | 280                            | -                      |
| Share based payment                                             |       | -                        | 368                | -                              | 368                    |
| Dividend declared (5 cents per ordinary share)                  |       | -                        | -                  | (19,259)                       | (19,259)               |
| Supplementary dividend                                          |       | -                        | -                  | (665)                          | (665)                  |
| Foreign investor tax credit                                     |       | -                        | -                  | 665                            | 665                    |
| <b>BALANCE AT 30 JUNE 2010</b>                                  |       | 353,741                  | (8,697)            | 101,795                        | 446,839                |

The above Statement of Changes in Equity should be read with the accompanying notes on pages 13 – 42

| <b>PARENT</b>                                              | <b>Notes</b> | <b>Issued capital<br/>\$'000</b> | <b>Reserves<br/>\$'000</b> | <b>Retained<br/>earnings<br/>\$'000</b> | <b>Total equity<br/>\$'000</b> |
|------------------------------------------------------------|--------------|----------------------------------|----------------------------|-----------------------------------------|--------------------------------|
| <b>BALANCE AT 1 JULY 2008</b>                              |              | 345,989                          | 6,465                      | (2,276)                                 | 350,178                        |
| <b>Comprehensive income</b>                                |              |                                  |                            |                                         |                                |
| Profit/(loss) for the year                                 |              | -                                | -                          | 72,609                                  | 72,609                         |
| <b>Total comprehensive income</b>                          |              | -                                | -                          | 72,609                                  | 72,609                         |
| <b>Transactions with owners</b>                            |              |                                  |                            |                                         |                                |
| Shares issued                                              |              | 1,203                            | -                          | -                                       | 1,203                          |
| Share based payment                                        |              | -                                | 278                        | -                                       | 278                            |
| Dividend declared (5 cents per ordinary share)             |              | -                                | -                          | (19,192)                                | (19,192)                       |
| Supplementary dividend                                     |              | -                                | -                          | (610)                                   | (610)                          |
| Foreign investor tax credit                                |              | -                                | -                          | 610                                     | 610                            |
|                                                            |              | -                                | -                          | -                                       | -                              |
| <b>Balance at 30 June 2009</b>                             |              | 347,192                          | 6,743                      | 51,141                                  | 405,076                        |
| <b>BALANCE AT 1 JULY 2009</b>                              |              | 347,192                          | 6,743                      | 51,141                                  | 405,076                        |
| <b>Comprehensive income</b>                                |              |                                  |                            |                                         |                                |
| Profit/(loss) for the year                                 |              | -                                | -                          | (10,792)                                | (10,792)                       |
| <b>Total comprehensive income</b>                          |              | -                                | -                          | (10,792)                                | (10,792)                       |
| <b>Transactions with owners</b>                            |              |                                  |                            |                                         |                                |
| Shares issued                                              |              | 6,549                            | -                          | -                                       | 6,549                          |
| Transfer of expired share based payments during the period |              | -                                | (280)                      | 280                                     | -                              |
| Share based payment                                        |              | -                                | 368                        | -                                       | 368                            |
| Dividend declared (5 cents per ordinary share)             |              | -                                | -                          | (19,259)                                | (19,259)                       |
| Supplementary dividend                                     |              | -                                | -                          | (665)                                   | (665)                          |
| Foreign investor tax credit                                |              | -                                | -                          | 665                                     | 665                            |
|                                                            |              | -                                | -                          | -                                       | -                              |
| <b>BALANCE AT 30 JUNE 2010</b>                             |              | 353,741                          | 6,831                      | 21,370                                  | 381,942                        |

The above Statement of Changes in Equity should be read with the accompanying notes on pages 13 – 42

# Statement of Cash Flow

For the year ended 30 June 2010

|                                                                           | Notes | GROUP            |                  | PARENT          |                 |
|---------------------------------------------------------------------------|-------|------------------|------------------|-----------------|-----------------|
|                                                                           |       | 2010<br>\$'000   | 2009<br>\$'000   | 2010<br>\$'000  | 2009<br>\$'000  |
| <b>Cash flows from operating activities</b>                               |       |                  |                  |                 |                 |
| Receipts from customers                                                   |       | 88,949           | 161,961          | -               | -               |
| Interest received                                                         |       | 2,421            | 9,242            | 1,736           | 8,171           |
| Dividend income                                                           |       | 3,283            | -                | -               | -               |
| Other revenue                                                             |       | 600              | 220              | 600             | 220             |
| Production and marketing expenditure                                      |       | (13,943)         | (18,659)         | -               | -               |
| Payments to suppliers and employees (inclusive of Goods and Services Tax) |       | (12,469)         | (11,292)         | (10,011)        | (9,148)         |
| Royalties                                                                 |       | (18,955)         | (32,149)         | -               | -               |
| Interest paid                                                             |       | (941)            | (7)              | -               | (7)             |
| Income taxes paid                                                         |       | (1,550)          | (16,300)         | -               | -               |
| <b>Net cash inflow / (outflow) from operating activities</b>              | 29    | <b>47,395</b>    | <b>93,016</b>    | <b>(7,675)</b>  | <b>(764)</b>    |
| <b>Cash flows from investing activities</b>                               |       |                  |                  |                 |                 |
| Repayment of loan to related party                                        |       | 6,000            | -                | 6,000           | -               |
| Proceeds from disposal of available for sale financial assets             |       | -                | 3,069            | -               | 2,468           |
| Exploration and evaluation expenditure                                    |       | (28,604)         | (8,942)          | (1,624)         | (2,805)         |
| Development expenditure                                                   |       | (34,859)         | (68,595)         | -               | -               |
| Purchase of available for sale financial assets                           |       | (741)            | (30,688)         | -               | -               |
| Purchase of shares in associate company                                   |       | (13,921)         | (11,778)         | -               | (371)           |
| Issue of convertible bond                                                 |       | (42,144)         | -                | -               | -               |
| Purchase of property, plant and equipment                                 |       | (445)            | (49)             | (445)           | (49)            |
| Loan to related party                                                     |       | (6,000)          | -                | (6,000)         | -               |
| Loan from/(to) wholly owned subsidiaries                                  |       | -                | -                | (7,882)         | (76,217)        |
| <b>Net cash inflow / (outflow) from investing activities</b>              |       | <b>(120,714)</b> | <b>(116,983)</b> | <b>(9,951)</b>  | <b>(76,974)</b> |
| <b>Cash flows from financing activities</b>                               |       |                  |                  |                 |                 |
| Issues of shares                                                          |       | 287              | 1,205            | 287             | 1,205           |
| Proceeds from exercise of options                                         |       | -                | 14,163           | -               | 14,163          |
| Borrowings                                                                |       | 63,049           | -                | -               | -               |
| Repayment of borrowings                                                   |       | -                | (69,048)         | -               | -               |
| Dividend paid                                                             |       | (13,655)         | (19,789)         | (13,655)        | (19,789)        |
| Net derivative payments                                                   |       | -                | (691)            | -               | -               |
| <b>Net cash inflow / (outflow) from financing activities</b>              |       | <b>49,681</b>    | <b>(74,160)</b>  | <b>(13,368)</b> | <b>(4,421)</b>  |
| <b>Net increase / (decrease) in cash and cash equivalents</b>             |       | <b>(23,638)</b>  | <b>(98,127)</b>  | <b>(30,994)</b> | <b>(82,159)</b> |
| Cash and cash equivalents at the beginning of the year                    |       | 174,753          | 256,461          | 145,616         | 219,232         |
| Effects of exchange rate changes on cash and cash equivalents             |       | (8,711)          | 16,419           | (7,016)         | 8,543           |
| <b>Cash and cash equivalents at end of year</b>                           | 11    | <b>142,404</b>   | <b>174,753</b>   | <b>107,606</b>  | <b>145,616</b>  |

The above Cash Flow Statement should be read with the accompanying notes on pages 13 – 42

# Notes to Financial Statements

For the year ended 30 June 2010

## 1. General information

New Zealand Oil & Gas Limited (the "Company" or "Parent") is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand ("NZX") and Australian Stock Exchanges ("ASX"). The Company is an issuer in terms of the Financial Reporting Act 1993.

The financial statements presented herewith as at and for the year ended 30 June 2010 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

These financial statements have been approved for issue by the Board of Directors on 25 August 2010.

## 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements include separate financial statements for New Zealand Oil & Gas Limited as an individual entity and the consolidated entity consisting of New Zealand Oil & Gas Limited and its subsidiaries.

### (A) Basis of preparation

#### Statement of compliance

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS").

#### Basis of measurement

These financial statements have been prepared under the historical cost basis, except that the following assets and liabilities are stated at their fair value: derivative financial instruments and available-for-sale assets.

#### Functional and presentation currency

These financial statements are presented in New Zealand dollars

(NZD or \$), which is the Company's functional and presentation currency. All financial information presented in New Zealand dollars has been rounded to the nearest thousand.

#### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The most significant estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year relate to the recoverability of evaluation and exploration & development assets, the provision for restoration and rehabilitation obligations and the recoverability of deferred tax assets.

The assumptions required to be made in order to assess the recoverability of exploration and evaluation assets and oil and gas assets include the future commodity prices, future cash flows, an estimated discount rate and estimates of reserves. (Refer to note 18 and 19)

The assumptions made in respect of restoration and rehabilitation obligations include an estimate of future costs, timing of required restoration and an estimated discount rate. (Refer to note 25)

The key assumptions concerning the recoverability of deferred tax assets is the certainty of entity's in the Group to generate future taxable income. (Refer to note 26)

### (B) Basis of consolidation

#### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable. The financial statements of subsidiaries are included in the financial statements

from the date that control commences until the date that control ceases. (Refer to note 15)

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Intercompany transactions, balances and unrealised gains on transactions between companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement and statement of financial position respectively.

Investments in subsidiaries are carried at their cost of acquisition in the parent Company's financial statements, except where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets.

*For acquisitions on or after 1 January 2010, the Group will measure goodwill at the acquisition date as:*

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

*For acquisitions between 1 January 2004 and 1 January 2010:*

For acquisitions between 1 January 2004 and 1 January 2010, goodwill represented the excess of the cost of the acquisition over the Group's interest in the recognised amount (generally fair value) of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess was negative, a bargain purchase gain was recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalised as part of the cost of the acquisition.

## (ii) Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. (Refer to note 16)

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

## (iii) Oil and gas joint ventures

Oil and gas joint ventures are those entities established by contractual agreement over which the Group has joint control. The Group financial statements include a proportional share of the ventures assets, liabilities, revenue and expenses with items of a similar nature on a line by line basis, from the date that control commences until the date that control ceases.

## (C) Foreign currency translation

### (i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated and parent financial statements are presented in New Zealand dollars, which is the Group's functional and presentation currency.

### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in statement of comprehensive income and held in equity reserves as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the statement of comprehensive income and held in the fair value reserves in equity.

### (iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at balance date;
- income and expenses for each income statement are translated at average exchange rates (unless this

is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

- all resulting exchange differences are recognised as a component of equity.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

## (D) Financial Instruments

### (i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, trade and other payables and investments in equity securities.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through income statement, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

#### *Investments in equity securities*

The Group's investments in equity securities where the Group does not have joint control are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses,

and foreign exchange gains and losses on available-for-sale monetary items, are recognised directly in statement of comprehensive income and held in the available for sale reserve. When an investment is derecognised, the cumulative gain or loss in the available for sale reserve is transferred to the income statement.

#### *Trade and other receivables*

Trade and other receivables are stated at their cost less impairment losses.

#### *Interest-bearing borrowings*

Interest-bearing borrowings are classified as other liabilities and are subsequently measured at amortised cost using the effective interest rate method.

#### *Trade and other payables*

Trade and other payables are stated at cost.

#### *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank, short term deposits and deposits at call with an original maturity of three months or less. Cash also includes the Group's share of cash held as participant of joint ventures and cash held in a pre-completion reserve under the Group's interest bearing borrowing arrangements.

#### *Other*

Accounting for finance income and expense is discussed in note 2(Q).

### **(ii) Derivative financial instruments**

The Group uses derivative financial instruments to hedge its exposure to commodity risks and foreign exchange risks arising from operational and financing activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

#### *Trading instruments*

These derivative financial instruments are recognised initially at fair value and transaction costs are expensed immediately. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement.

#### *Cash flow hedges*

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in statement of comprehensive income to the extent

that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the income statement.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in statement of comprehensive income remains there until the forecast transaction occurs. When the hedged item is a non-financial asset, the amount recognised in the hedging reserve is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in the hedging reserve is transferred to the income statement in the same period that the hedged item affects the financial performance.

#### *Economic hedges*

Hedge accounting is not applied to derivative instruments that economically hedge monetary assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognised in the income statement as part of foreign currency gains and losses.

#### *Separable embedded derivatives*

Changes in the fair value of separable embedded derivatives are recognised immediately in the income statement.

### **(iii) Share capital**

#### *Ordinary shares*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

### **(E) Exploration and evaluation assets**

Exploration and evaluation expenditure costs capitalised represents an accumulation of costs incurred in relation to separate areas of interest for which rights of tenure are current and in respect of which: (i) Such costs are expected to be recouped through successful development of the area of interest, or alternatively, by its sale; or (ii) Exploration and/or evaluation activities in the area of interest 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, the areas of interest are continuing.

Exploration and evaluation expenditure are impaired in the income statement under the successful efforts method of accounting, in the period that exploration work demonstrates that an area of interest or any part thereof, is no longer prospective for economically recoverable reserves or when the decision to abandon an area of interest is made. An area of interest is defined by the Group, as being a permit area, where rights of tenure are current.

Upon technical feasibility and commercial viability of an area of interest, exploration and evaluation assets for the area of interest is transferred to Development assets. No amortisation is provided for in respect of exploration and evaluation assets.

The recoverability of exploration and evaluation assets is contingent upon facts, such as technical success and commercial development, sale of the area of interest, the results of further exploration, agreements entered into with other parties, and also upon meeting commitments under the terms of permits granted and joint venture agreements.

### **(F) Oil and gas assets**

#### *Development*

Development assets include construction, installation and completion of infrastructure facilities such as pipelines and the cost of development wells.

No amortisation is provided, in respect of development assets, until they are reclassified as Production assets.

#### *Production assets*

Production assets capitalised represent the accumulation of all development expenditure incurred by the Group in relation to areas of interest in which petroleum production has commenced. Expenditure on production areas of interest and any future estimated expenditure necessary to develop proven and probable reserves to meet current commitments under sales contracts, are amortised using the units of production method or on a basis consistent with the recognition of revenue. The carrying value is assessed for impairment.

#### *Under/over lift*

Lifting arrangements for petroleum products produced in jointly-owned operations are of such a frequency that it is not practicable for each participant

to receive or sell its precise share of the overall production during the period. At each reporting date, the extent of underlift is recognised as an asset at the lower of cost and net realisable value. Overlift is recognised as a liability at the current market price of the petroleum product. The net movement in underlift and overlift is recognised under operating costs in the income statement.

#### *Subsequent costs*

Subsequent costs are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period, in which they are incurred.

### **(G) Property, plant and equipment**

#### **(i) Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

#### **(ii) Subsequent costs**

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

#### **(iii) Depreciation**

Depreciation is recognised in the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

|                                           |            |
|-------------------------------------------|------------|
| - Leasehold improvements                  | 13 years   |
| - Furniture and fittings                  | 4-10 years |
| - Computer hardware & technical equipment | 2-6 years  |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### **(H) Intangible assets**

#### **(i) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

#### *Acquisitions of non-controlling interests*

Acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognised as a result of such transactions. The adjustments to non-controlling interests are based on a proportionate amount of the net assets of the subsidiary.

#### *Subsequent measurement*

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and an impairment loss on such an investment is not allocated to any asset, including goodwill, that forms part of the carrying amount of the equity-accounted investee.

#### **(ii) Computer software**

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

### **(I) Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first in first out principle, and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

### **(J) Impairment**

The carrying amounts of the Group's assets are reviewed at each balance sheet date to determine whether there is any objective evidence of impairment.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses directly reduce the carrying amount of assets and are recognised in the income statement.

#### **(i) Impairment of equity instruments.**

Equity instruments are deemed to be impaired whenever there is a significant or prolonged decline in fair value below the original purchase price.

Any subsequent recovery of an impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through the income statement.

#### **(ii) Impairment of receivables**

The recoverable amount of the Group's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

#### **(iii) Impairment of non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date. For exploration and evaluation assets the method for reviewing for impairment is described in note 2J(iv).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first

to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### **(iv) Exploration and evaluation assets**

Exploration and evaluation assets are tested for impairment when either the period of the exploration right has expired or will expire in the near future, substantive expenditure on further exploration for and evaluation in the specific area is neither budgeted or planned, exploration for and evaluation in the specific area have not led to the discovery of commercially viable quantities and the Group has decided to discontinue such activities in the area or there is sufficient data to indicate that the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Any impairment loss is recognised as an expense in the income statement in the period.

#### **(K) Goods and Services Tax (GST)**

The income statement has been prepared so that all components are stated exclusive of GST. All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

#### **(L) Employee benefits**

##### **(i) Wages and salaries, annual leave and sick leave**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### **(ii) Share-based payments**

The issue date fair value of partly paid shares issued to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the partly paid shares. The amount recognised as an expense is adjusted to reflect the actual number of partly paid shares that vest.

#### **(M) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

##### **(i) Make good provision**

A make good provision is recognised in respect of the Group's obligation in relation to its leased buildings.

##### **(ii) Restoration and rehabilitation provision**

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

#### **(N) Borrowing costs**

Borrowing costs relating to assets under development up to the date that substantially all activities necessary to prepare assets under development for intended use are

complete, are capitalised as a cost of the development. Where funds are borrowed specifically for qualifying projects the actual borrowing costs incurred are capitalised. Where the projects are funded through general borrowings the borrowing costs are capitalised based on the weighted average borrowing rate.

#### **(O) Revenue recognition**

Revenues are recognised at the fair value of the consideration received net of the amount of goods and services tax (GST).

##### **(i) Sales of goods**

Sales comprise revenue earned from the provision of petroleum products. Revenue is recognised when the significant risks and rewards of ownership of the petroleum products have been transferred to the buyer.

##### **(ii) Royalty income**

Royalty income is recognised on the date the Company's right to receive payment is established.

#### **(P) Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Other leases are operating leases and the leased assets are not recognised in the Group's statement of financial position. Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease

incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

#### **(Q) Finance income and expenses**

Finance income comprises interest income on funds invested, dividend income, gains on the disposal of available-for-sale financial assets, foreign currency gains, gains on hedging instruments that are recognised in the income statement and changes in the fair value of available-for-sale financial assets transferred from the available for sale reserve. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Company's right to receive payment is established.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, impairment losses recognised on financial assets (except for trade receivables), losses on the disposal of available-for-sale financial assets, and losses on hedging instruments that are recognised in the income statement. All borrowing costs, other than those capitalised on qualifying development assets, are recognised in the income statement using the effective interest method.

#### **(R) Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in statement of comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### **(S) Royalties expense**

The Group recognises petroleum royalties payable to the New Zealand Government on an accruals basis.

#### **(T) Earnings per share**

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the financial performance attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the financial performance attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprises issued convertible notes and granted share options.

#### **(U) Net tangible asset backing per share**

The Group presents net tangible asset backing per share for its issued shares. Net tangible asset backing per share is calculated by dividing net tangible assets by the number ordinary shares of the Company, excluding treasury stock, as at the end of the reporting period. Net tangible assets is calculated by taking intangibles and liabilities off total assets as presented at the end of the reporting period.

#### **(V) Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses. All operating segments' operating results are reviewed regularly by the Group's CEO to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported to the CEO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, office expenses, and income tax assets and liabilities.

#### **(W) Fair value estimation**

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The fair value of available-for-sale financial assets that are traded on an active market are determined by reference to their quoted bid price at the reporting date.

The fair value of available-for-sale financial assets that are not traded on an active market are determined by the use of a valuation technique.

The fair value of equity options are measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on historic volatility), life of the equity option, expected dividend yield, and the risk-free interest rate.

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of employee partly paid shares is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), life of the instruments, expected dividends, and the risk-free interest rate. Service conditions attached to the transactions are not taken into account in determining fair value.

#### (X) Standards, amendments, and interpretations effective in 2010

The Group has adopted the following new and amended International Financial Reporting Standards as at 1 July 2009:

- NZ IFRS 2, Share Based Payments Vesting Conditions and Cancellations (Amended)
- NZ IFRS 3, Business Combinations (revised)
- NZ IFRS 4, Insurance Contracts (amended)
- NZ IFRS 7, Financial Instruments - Improved disclosure about financial instruments
- NZ IFRS 8, Operating Segments
- NZ IAS 1, Presentation of Financial Statements (revised)
- NZ IAS 23, Borrowing costs (revised)
- NZ IAS 27, Consolidated and Separate Financial Statements (amended)
- NZ IAS 32 and NZ IAS 1, Financial Instruments Presentation (amended) and Presentation of Financial Statements (amended) - Puttable Financial Instruments and obligations arising on liquidation
- NZ IAS 38, Intangible Assets (amendments)
- NZ IAS 39, Financial Instruments - Eligible Hedge items (amended)
- NZ IAS 39, Financial Instruments - Embedded derivatives (amended)

#### (Y) Standards, amendments and interpretations to existing standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods but which the Group has not early adopted:

The adoption of these standards are not expected to have a material impact on the Group's financial statements

- NZ IFRS 2, Share Based Payments - Group cash-settled share-based payment transactions (Amendment) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)

- NZ IFRS 9, Financial Instruments - (effective from annual periods beginning on or after 1 January 2013)
- NZ IAS 1, Presentation of Financial Statements (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IAS 7, Statement of Cash Flows (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IAS 17, Leases (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IAS 24, Related Party Disclosures (revised 2009) - (effective from annual periods beginning on or after 1 July 2011)
- NZ IAS 32, Financial Instruments: Presentation - Classification of Rights Issues (Amendment) - (effective from annual periods beginning on or after 1 February 2010)
- NZ IAS 36, Impairment of Assets (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IAS 39, Financial Instruments: Recognition and Measurement (Improvements to NZ IFRSs 2009) - (effective from annual periods beginning on or after 1 January 2010)
- NZ IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments (effective from annual periods beginning on or after 1 July 2010)

#### (Z) Changes in accounting policies

There have been no changes in accounting policies during the current year, with the exception of the adoption of the revised accounting standards that are listed in note 2(X). The adoption of the revised accounting standards have not resulted in a significant change to the Groups accounting policies from prior years. All other accounting policies have been applied on a basis consistent with the prior year.

### 3. Segment information

For management purposes, the Group's activities are organised into a number of different segments based on the nature of the venture or investment.

Management monitors operating results and technical data associated with these segments separately for the purposes of making decisions about resource allocation and performance assessment. The financial performance of each segment is evaluated based on profit before tax and net finance costs (profit before tax and interest) and is measured in accordance with the Group's accounting policies. The Group's financing requirements, finance income, finance costs, taxes and other corporate activities are managed at a Group level.

The following summaries describe the activities within each of the reportable operating segments:

#### Oil and gas

Tui: Development, production and sale of crude oil in the petroleum mining permit area of PMP 38158 located in the offshore Taranaki basin, New Zealand.

Kupe: Development, production and sale of natural gas, liquefied petroleum gas (LPG) and condensate (light oil) in the petroleum mining license area of PML 38146 located in the offshore Taranaki basin, New Zealand.

Exploration: Exploration and evaluation of hydrocarbons in offshore Taranaki basin and offshore Canterbury basin, New Zealand.

#### Investments

Investments held by the Group are in resource companies listed on the New Zealand and Australian stock exchanges. At balance date the investments held were in Pike River Coal Limited (investment in associate) and Pan Pacific Petroleum NL (available for sale asset).

#### Other and unallocated

This segment comprises corporate costs and incidental costs of the Group.

No operating segments have been aggregated to form the above reportable segments.

Segment revenues are allocated based on whether the customer is located in New Zealand or overseas. All segment assets are based in New Zealand with the exception of the investment in Pan Pacific Petroleum NL, which is an Australian listed company.

## Segment Information

| 2010                                                    | Oil and Gas<br>- Tui<br>\$'000 | Oil and Gas<br>- Kupe<br>\$'000 | Oil and Gas<br>- Exploration<br>\$'000 | Investments<br>\$'000 | Other and<br>unallocated<br>\$'000 | Total<br>\$'000 |
|---------------------------------------------------------|--------------------------------|---------------------------------|----------------------------------------|-----------------------|------------------------------------|-----------------|
| Sales to external customers - NZ                        | -                              | 15,331                          | -                                      | -                     | -                                  | 15,331          |
| Sales to external customers - other countries           | 67,915                         | 16,128                          | -                                      | -                     | -                                  | 84,043          |
| <b>Total sales revenue</b>                              | 67,915                         | 31,459                          | -                                      | -                     | -                                  | 99,374          |
| Other income                                            | -                              | -                               | -                                      | -                     | 736                                | 736             |
| <b>Total revenue and other income</b>                   | 67,915                         | 31,459                          | -                                      | -                     | 736                                | 100,110         |
| <b>Segment result</b>                                   | 44,038                         | 16,075                          | (30,697)                               | (11,470)              | (11,262)                           | 6,684           |
| Other reconciling items - Net finance income/(costs)    |                                |                                 |                                        |                       |                                    | (9,013)         |
| Profit/(loss) before income tax                         |                                |                                 |                                        |                       |                                    | (2,329)         |
| Income tax expense                                      |                                |                                 |                                        |                       |                                    | (926)           |
| <b>Profit/(loss) for the year</b>                       |                                |                                 |                                        |                       |                                    | (3,255)         |
| Segment assets                                          | 29,517                         | 228,156                         | 6,641                                  | 136,665               | -                                  | 400,979         |
| Other reconciling items                                 |                                |                                 |                                        |                       |                                    | 165,725         |
| <b>Total assets</b>                                     |                                |                                 |                                        |                       |                                    | 566,704         |
| Included in segment assets:                             |                                |                                 |                                        |                       |                                    |                 |
| Investments in associates and joint venture partnership | -                              | -                               | -                                      | 77,088                | -                                  | 77,088          |
| Included in the segment result:                         |                                |                                 |                                        |                       |                                    |                 |
| Depreciation and amortisation expense                   | 5,856                          | 9,518                           | -                                      | -                     | 294                                | 15,668          |

| 2009                                                                                | Oil and Gas<br>- Tui<br>\$'000 | Oil and Gas<br>- Kupe<br>\$'000 | Oil and Gas<br>- Exploration<br>\$'000 | Investments<br>\$'000 | Other and<br>unallocated<br>\$'000 | Total<br>\$'000 |
|-------------------------------------------------------------------------------------|--------------------------------|---------------------------------|----------------------------------------|-----------------------|------------------------------------|-----------------|
| Sales to external customers - NZ                                                    | 2,993                          | -                               | -                                      | -                     | -                                  | 2,993           |
| Sales to external customers - other countries                                       | 135,676                        | -                               | -                                      | -                     | -                                  | 135,676         |
| <b>Total sales revenue</b>                                                          | 138,669                        | -                               | -                                      | -                     | -                                  | 138,669         |
| Other income                                                                        | -                              | -                               | -                                      | -                     | 220                                | 220             |
| <b>Total revenue and other income</b>                                               | 138,669                        | -                               | -                                      | -                     | 220                                | 138,889         |
| <b>Segment result</b>                                                               | 83,097                         | -                               | (4,237)                                | (3,914)               | (13,907)                           | 61,039          |
| Other reconciling items - Net finance income/(costs)                                |                                |                                 |                                        |                       |                                    | 23,298          |
| Profit/(loss) before income tax                                                     |                                |                                 |                                        |                       |                                    | 84,337          |
| Income tax expense                                                                  |                                |                                 |                                        |                       |                                    | (31,131)        |
| <b>Profit/(loss) for the year</b>                                                   |                                |                                 |                                        |                       |                                    | 53,206          |
| Segment assets                                                                      | 35,141                         | 207,140                         | 5,236                                  | 123,610               | -                                  | 371,127         |
| Other reconciling items                                                             |                                |                                 |                                        |                       |                                    | 186,825         |
| <b>Total assets</b>                                                                 |                                |                                 |                                        |                       |                                    | 557,952         |
| Included in segment assets: Investments in associates and joint venture partnership | -                              | -                               | -                                      | 74,781                | -                                  | 74,781          |
| Included in the segment result:                                                     |                                |                                 |                                        |                       |                                    |                 |
| Depreciation and amortisation expense                                               | 13,529                         | -                               | -                                      | -                     | 302                                | 13,831          |

## 4. Income

|                             | GROUP          |                | PARENT         |                |
|-----------------------------|----------------|----------------|----------------|----------------|
|                             | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>Revenue</b>              |                |                |                |                |
| Petroleum sales             | 99,374         | 138,669        | -              | -              |
| Total revenue               | 99,374         | 138,669        | -              | -              |
| <b>Other income</b>         |                |                |                |                |
| Rents and sub-lease rentals | 136            | -              | 77             | -              |
| Other income                | 600            | 220            | 600            | 220            |
| Total other income          | 736            | 220            | 677            | 220            |
| Total income                | 100,110        | 138,889        | 677            | 220            |

## 5. Operating costs

|                                      | GROUP          |                | PARENT         |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Production and sales marketing costs | 15,234         | 18,539         | -              | -              |
| Amortisation of production asset     | 15,376         | 13,529         | -              | -              |
| Movement in inventory                | 597            | (292)          | -              | -              |
| Movement in stock over/(under) lift  | 597            | -              | -              | -              |
|                                      | 31,804         | 31,776         | -              | -              |

## 6. Other expenses

|                                                   | GROUP          |                | PARENT         |                |
|---------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                   | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>Classification of other expenses by nature</b> |                |                |                |                |
| Audit fees                                        | 125            | 115            | 125            | 115            |
| Directors' fees                                   | 541            | 472            | 541            | 472            |
| Legal fees                                        | 137            | 910            | 136            | 877            |
| Consultants' fees                                 | 1,727          | 2,197          | 1,708          | 2,149          |
| Employee expenses                                 | 4,289          | 3,355          | 4,289          | 3,355          |
| Depreciation                                      | 102            | 103            | 102            | 103            |
| Amortisation of Intangible assets                 | 192            | 199            | 192            | 199            |
| Share based payment expense                       | 368            | 278            | 368            | 278            |
| Loss on dilution of investment in associate       | 144            | 2,773          | -              | -              |
| Investment in subsidiary written off              | -              | -              | 6,738          | -              |
| Other                                             | 4,373          | 3,725          | 2,840          | 2,026          |
| Total other expenses                              | 11,998         | 14,127         | 17,039         | 9,574          |
| <b>Remuneration of auditors</b>                   |                |                |                |                |
| Auditors' remuneration to KPMG comprises:         |                |                |                |                |
| Audit and review of financial statements          | 125            | 115            | 125            | 115            |
| Non-audit related services:                       |                |                |                |                |
| Tax compliance services                           | 142            | 234            | 142            | 234            |
| Tax advisory services                             | 69             | 212            | 69             | 212            |
| Other                                             | 12             | -              | 12             | -              |
| Total remuneration of auditors                    | 348            | 561            | 348            | 561            |

## 7. Net finance income/(costs)

|                                                 | GROUP          |                | PARENT         |                |
|-------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                 | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>Finance costs</b>                            |                |                |                |                |
| Interest and finance charges                    | (896)          | (304)          | -              | (7)            |
| Exchange losses on foreign currency balances    | (8,010)        | -              | (7,015)        | -              |
| Net losses on held to maturity assets           | -              | -              | -              | (12)           |
| Net fair value loss on derivatives              | (1,576)        | -              | -              | -              |
| Expiry and settlement of derivatives            | (794)          | (1,626)        | -              | -              |
| Total finance costs                             | (11,276)       | (1,930)        | (7,015)        | (19)           |
| <b>Finance income</b>                           |                |                |                |                |
| Interest income                                 | 2,263          | 9,391          | 1,768          | 8,348          |
| Exchange gains on foreign currency balances     | -              | 3,697          | -              | 8,543          |
| Net gain on available for sale financial assets | -              | 589            | 773            | -              |
| Net fair value gain on derivatives              | -              | 8,268          | -              | -              |
| Dividend income                                 | -              | 3,283          | 10,346         | 65,990         |
| Total finance income                            | 2,263          | 25,228         | 12,887         | 82,881         |
| Net finance income/(costs)                      | (9,013)        | 23,298         | 5,872          | 82,862         |

## 8. Royalties expense

Royalty expenses incurred by the Group relate to payments to the New Zealand Government in respect of the Tui oil field and Kupe gas & condensate field.

## 9. Income tax expense

|                                                           | GROUP          |                | PARENT         |                |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                           | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>(a) Income tax expense</b>                             |                |                |                |                |
| Current tax                                               | -              | 19,728         | -              | -              |
| Deferred tax (Refer note 26)                              | 1,041          | 11,403         | 302            | 899            |
| Under/(over) provided in prior years                      | (115)          | -              | -              | -              |
| <b>Total income tax expense</b>                           | <b>926</b>     | <b>31,131</b>  | <b>302</b>     | <b>899</b>     |
| <b>(b) Income tax expense calculation</b>                 |                |                |                |                |
| Profit/(loss) before income tax expense and royalties     | 5,128          | 108,133        | (10,490)       | 73,508         |
| Less: royalties expense                                   | (7,457)        | (23,796)       | -              | -              |
| Profit/(loss) before income tax expense                   | (2,329)        | 84,337         | (10,490)       | 73,508         |
| Tax at the New Zealand tax rate of 30% (2009 - 30%)       | (699)          | 25,301         | (3,147)        | 22,052         |
| Tax effect of a change in tax rates                       | (1,856)        | -              | -              | -              |
| Tax effect of amounts which are not deductible/(taxable): |                |                |                |                |
| Share of associates losses                                | 3,441          | 1,174          | -              | -              |
| Imputation credits received                               | -              | (1,423)        | -              | -              |
| Foreign exchange adjustments                              | (451)          | 2,433          | -              | -              |
| Dividends from wholly owned subsidiaries                  | -              | -              | (3,104)        | (19,797)       |
| Other expenses/(income)                                   | 453            | 1,965          | 1,938          | 106            |
|                                                           | <b>888</b>     | <b>29,450</b>  | <b>(4,313)</b> | <b>2,361</b>   |
| Under/(over) provision in prior years                     | 38             | 1,681          | -              | -              |
| Losses utilised/(transferred)                             | -              | -              | 4,615          | (1,462)        |
| <b>Income tax expense</b>                                 | <b>926</b>     | <b>31,131</b>  | <b>302</b>     | <b>899</b>     |

On 27 May 2010, the Taxation (Budget Measures) Act 2010 was given royal assent meaning that for the 2011/12 income tax year the New Zealand company tax rate changed from 30% to 28%. The effect of the reduction in the tax rate on the measurement of deferred tax assets and liabilities has been shown in the table above.

## 10. Imputation credits

|                                            | GROUP          |                | PARENT         |                |
|--------------------------------------------|----------------|----------------|----------------|----------------|
|                                            | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>Imputation credit account</b>           |                |                |                |                |
| Balance at beginning of year               | 21,290         | 12,409         | 3,567          | 764            |
| Tax payments, net of refunds               | 1,550          | 16,300         | -              | -              |
| Credits attached to dividend distributions | (7,796)        | (8,842)        | (7,796)        | (8,842)        |
| Credits attached to dividends received     | -              | 1,423          | 4,433          | 11,645         |
| <b>Balance at end of year</b>              | <b>15,044</b>  | <b>21,290</b>  | <b>204</b>     | <b>3,567</b>   |

## 11. Cash and cash equivalents

|                                 | GROUP          |                | PARENT         |                |
|---------------------------------|----------------|----------------|----------------|----------------|
|                                 | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Cash at bank and in hand        | 22,661         | 12,253         | 685            | 186            |
| Deposits at call                | 17,913         | 20,485         | 7,156          | 8,065          |
| Short term deposits             | 101,830        | 142,015        | 99,765         | 137,365        |
| Total cash and cash equivalents | 142,404        | 174,753        | 107,606        | 145,616        |

Cash and cash equivalents denominated in currencies other than the presentation currency comprise \$52 million denominated in US dollars; NZ dollar equivalent \$75 million (2009: US dollars \$94 million; NZ dollar equivalent \$146 million).

### (a) Deposits at call and short term deposits

The deposits at call and short term deposits are bearing interest rates between 0.10% and 4.57% (2009: 0.10% and 2.80%).

### (b) Restriction of use

Cash held in respect of the Kupe project of \$17.5 million at balance date may not be used for general working capital requirements, except after meeting interest, principal repayment and other terms of the Kupe project finance facility with Westpac Banking Corporation.

In respect of the Tui project finance facility, the Company has agreed that deposits of US\$5.9 million (NZ dollar equivalent \$8.5 million) are held in escrow by Commonwealth Bank of Australia based on the level of the Letter of Credit Facility outstanding to the bank.

## 12. Receivables and prepayments

|                                   | GROUP          |                | PARENT         |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Trade receivables                 | 19,564         | 9,936          | -              | 3              |
| Interest receivable               | 251            | 294            | 251            | 218            |
| Advances to related parties       | -              | -              | 203,288        | 180,617        |
| Prepayments                       | 627            | 486            | 57             | 49             |
| Other                             | 352            | 136            | 929            | 136            |
| Total receivables and prepayments | 20,794         | 10,852         | 204,525        | 181,023        |

Trade receivables denominated in currencies other than the presentation currency comprise \$8.7 million denominated in US dollars; NZ dollar equivalent \$12.6 million (2009: \$3.7 million denominated in US dollars and \$2.6 million denominated in Australian dollars; NZ dollar equivalent \$9.0 million).

## 13. Inventories

|                                      | GROUP          |                | PARENT         |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Oil stock, at cost                   | 107            | 605            | -              | -              |
| LPG stock, at cost                   | 33             | -              | -              | -              |
| Field operation consumables, at cost | -              | 32             | -              | -              |
| Total inventories                    | 140            | 637            | -              | -              |

## 14. Convertible Bond

|                                   | GROUP          |                | PARENT         |                |
|-----------------------------------|----------------|----------------|----------------|----------------|
|                                   | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Convertible Bond - fixed interest | 36,016         | -              | -              | -              |
| Convertible Bond - equity option  | 3,917          | -              | -              | -              |
| Total convertible bond            | 39,933         | -              | -              | -              |

During the year the Group entered into an agreement with Pike River Coal Limited ("Pike") to subscribe for a convertible bond facility with a face value of US\$28.9 million. The facility is for a term of 2 years up to 12 March 2012 and at an annual interest rate of 10%. The facility is a first ranking secured debt ranked equally with other Pike debt of up to NZ\$20 million.

The convertible bond facility can be converted to shares in Pike at the option of the Group or repaid in cash. If the bond is converted to shares the conversion price will be subject to standard anti-dilution clauses in the agreement that will reduce the conversion price if further securities are issued at a lower price.

The Group recognises that the convertible bond incorporates an equity option and a fixed interest component, and has separately recorded these components.

The fixed interest component, classified as loans and receivables, is initially recorded at fair value and is held at amortised cost. The initial fair value of the fixed interest component was US\$24.7 million (NZ\$36.7 million). Over the term of the bond, the fair value of the fixed interest component will progressively appreciate to the face value of US\$28.9 million on maturity.

The equity option component is a financial derivative, classified as held for trading, and is recorded in the statement of financial position at fair value with subsequent changes in fair value recorded in the income statement. The initial fair value of the equity option was NZ\$5.3 million.

## 15. Investments in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and controlled entities in accordance with the accounting policy described in note 2(B):

| Name of entity                               | Country of incorporation | Classes of shares | Equity holding |           |
|----------------------------------------------|--------------------------|-------------------|----------------|-----------|
|                                              |                          |                   | 2010<br>%      | 2009<br>% |
| ANZ Resources Pty Limited                    | Australia                | Ordinary          | 100            | 100       |
| Australia and New Zealand Petroleum Limited  | New Zealand              | Ordinary          | 100            | 100       |
| Kupe Royalties Limited                       | New Zealand              | Ordinary          | 100            | 100       |
| National Petroleum Limited                   | New Zealand              | Ordinary          | 100            | 100       |
| Nephrite Enterprises Limited                 | New Zealand              | Ordinary          | 100            | 100       |
| NZOG 38483 Limited                           | New Zealand              | Ordinary          | 100            | 100       |
| NZOG 38494 Limited                           | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Deepwater Limited                       | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Development Limited                     | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Energy Limited                          | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Offshore Limited                        | New Zealand              | Ordinary          | 100            | 100       |
| NZOG 38259 Limited                           | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Services Limited                        | New Zealand              | Ordinary          | 100            | 100       |
| NZOG Taranaki Limited                        | New Zealand              | Ordinary          | 100            | 100       |
| Oil Holdings Limited                         | New Zealand              | Ordinary          | 100            | 100       |
| Petroleum Resources Limited                  | New Zealand              | Ordinary          | 100            | 100       |
| Petroleum Equities Limited                   | New Zealand              | Ordinary          | 100            | 100       |
| Resource Equities Limited                    | New Zealand              | Ordinary          | 100            | 100       |
| Stewart Petroleum Company Limited            | New Zealand              | Ordinary          | 100            | 100       |
| New Zealand Oil & Gas Employee Benefit Trust | New Zealand              | Trustee           | -              | -         |

All subsidiary companies have a balance date of 30 June. All wholly owned subsidiaries are involved in the petroleum exploration industry.

All subsidiaries within the Group have a functional currency of New Zealand dollars, with exception to the following:

- Stewart Petroleum Company Limited - United States dollars (USD)
- ANZ Resources Pty Limited - Australian dollars (AUD)

## 16. Investments in associates

### (a) Carrying amounts

Information relating to associates is set out below.

|                      | GROUP          |                | PARENT         |                |
|----------------------|----------------|----------------|----------------|----------------|
|                      | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Shares in associates | 77,088         | 74,781         | -              | 3,671          |

During the year ended 30 June 2010 the shares and options held in associate Pike River Coal Limited ("Pike") by the Parent were sold to the wholly owned subsidiary NZOG Services Limited at market value. After the sale all of the Pike shares and options within the Group are held by NZOG Services Limited.

| Significant associates comprise: | Principal activities | Interest held by the consolidated group |       | Group carrying amount |                |
|----------------------------------|----------------------|-----------------------------------------|-------|-----------------------|----------------|
|                                  |                      | 2010                                    | 2009  | 2010<br>\$'000        | 2009<br>\$'000 |
| Pike River Coal Limited (Pike)   | Coal mining          | 29.4%                                   | 29.6% | 77,088                | 74,781         |

Pike is incorporated in New Zealand with a balance date of 30 June.

The Group's holding in Pike comprises 119.0 million ordinary shares and 17.3 million options that are exercisable on or before 24 April 2011 at \$1.25. The market value of the Group's investment in Pike as at 30 June 2010 was \$107 million.

| Movements in carrying amounts                                                          | GROUP          |                |
|----------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                        | 2010<br>\$'000 | 2009<br>\$'000 |
| Carrying amount at the beginning of the year                                           | 74,781         | 68,670         |
| Share of net loss of associate                                                         | (11,470)       | (3,914)        |
| Loss on investment held in associate                                                   | (144)          | (2,773)        |
| Purchase of shares in associate                                                        | 13,921         | 11,778         |
| Acquired associate shares on maturity of convertible note                              | -              | 3,300          |
| Reclassification of NZOG Nominees Limited shares to available-for-sale financial asset | -              | (2,280)        |
| Carrying amount at the end of the financial year                                       | 77,088         | 74,781         |

### (b) Summarised financial information of associates (100% share)

|                         | Assets<br>\$'000 | Liabilities<br>\$'000 | Revenues<br>\$'000 | Profit/(Loss)<br>\$'000 |
|-------------------------|------------------|-----------------------|--------------------|-------------------------|
| <b>2010</b>             |                  |                       |                    |                         |
| Pike River Coal Limited | 339,995          | 77,689                | 3,346              | (39,028)                |
| <b>2009</b>             |                  |                       |                    |                         |
| Pike River Coal Limited | 306,367          | 53,474                | 5                  | (13,018)                |

## 17. Interests in oil and gas joint ventures

Group interests held at balance date in significant unincorporated oil and gas joint ventures established to explore, develop and produce petroleum:

| Name of entity                          | Date new permit interest acquired | Interests held by the Group |        |
|-----------------------------------------|-----------------------------------|-----------------------------|--------|
|                                         |                                   | 2010                        | 2009   |
| PML 38146 - Kupe                        |                                   | 15.0%                       | 15.0%  |
| PMP 38158 - Tui                         |                                   | 12.5%                       | 12.5%  |
| PEP 38483 - Bahamas (formerly Aihe)     |                                   | 18.9%                       | 18.9%  |
| PEP 38483 - Aihe extension              |                                   | -%                          | 12.5%  |
| PEP 38259 - Barque                      |                                   | 40.0%                       | 40.0%  |
| PEP 51311 - Kaupokonui (formerly Gamma) |                                   | 100.0%                      | 100.0% |
| PEP 51321 - Kahurangi                   |                                   | 18.9%                       | 18.9%  |
| PEP 38401 - Hoki                        | July 2009                         | 10.0%                       | -%     |
| PEP 38491 - Albacore                    | August 2009                       | 40.0%                       | -%     |
| PEP 51988 - Mangaa                      | January 2010                      | 100.0%                      | -%     |

|                                                                           | GROUP           |                 |
|---------------------------------------------------------------------------|-----------------|-----------------|
|                                                                           | 2010<br>\$'000  | 2009<br>\$'000  |
| <b>Share of oil and gas joint ventures' assets and liabilities</b>        |                 |                 |
| Short term securities and cash deposits                                   | 6,547           | 11,997          |
| Trade receivables *                                                       | 2,453           | 904             |
| Inventory                                                                 | 139             | 637             |
| Prepayments                                                               | -               | -               |
| Petroleum interests **                                                    | 298,522         | 269,985         |
| <b>Total current and non-current assets</b>                               | <b>307,661</b>  | <b>283,523</b>  |
| Current liabilities                                                       | 11,678          | 10,190          |
| Non-current liabilities                                                   | -               | -               |
| <b>Total current and non-current liabilities</b>                          | <b>11,678</b>   | <b>10,190</b>   |
| <b>Net assets</b>                                                         | <b>295,983</b>  | <b>273,333</b>  |
| <b>Share of oil and gas joint ventures' revenue, expenses and results</b> |                 |                 |
| Revenues *                                                                | 355             | 328             |
| Expenses                                                                  | (44,814)        | (24,206)        |
| <b>Profit before income tax</b>                                           | <b>(44,459)</b> | <b>(23,878)</b> |

\* Revenue receivable from Tui and Kupe petroleum sales (see note 12) is not included as it is earned directly by the wholly owned subsidiaries that hold the permit interests.

\*\* Prior to amortisation of production assets.

## 18. Exploration and evaluation assets

|                                                      | GROUP          |                | PARENT         |                |
|------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                      | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Opening balance                                      | 5,236          | 215            | 2,968          | -              |
| Expenditure capitalised                              | 32,044         | 9,338          | 1,462          | 2,968          |
| Revaluation of USD exploration and evaluation assets | 58             | (80)           | -              | -              |
| Expenditure written off                              | (30,697)       | (4,237)        | -              | -              |
| <b>Closing balance</b>                               | <b>6,641</b>   | <b>5,236</b>   | <b>4,430</b>   | <b>2,968</b>   |

## 19. Oil and gas assets

### (a) Development assets

|                                  | GROUP          |                | PARENT         |                |
|----------------------------------|----------------|----------------|----------------|----------------|
|                                  | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Opening balance                  | 207,140        | 166,257        | -              | -              |
| Expenditure capitalised          | 27,747         | 42,425         | -              | -              |
| Borrowing costs capitalised      | 1,210          | 2,367          | -              | -              |
| Expiry of commodity premium      | (410)          | (75)           | -              | -              |
| Abandonment provision            | -              | (3,834)        | -              | -              |
| Capitalised during commissioning | (573)          | -              | -              | -              |
| Transferred to production assets | (235,114)      | -              | -              | -              |
| Closing balance                  | -              | 207,140        | -              | -              |

Included borrowing costs capitalised of \$9.3 million at 30 June 2009.

### (b) Production assets

|                                      | GROUP          |                | PARENT         |                |
|--------------------------------------|----------------|----------------|----------------|----------------|
|                                      | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Opening balance                      | 35,141         | 38,242         | -              | -              |
| Transfer from development assets     | 235,114        | -              | -              | -              |
| Expenditure capitalised              | 1,462          | 3,895          | -              | -              |
| Amortisation for the year            | (15,376)       | (13,529)       | -              | -              |
| Revaluation of USD production assets | (2,453)        | 7,566          | -              | -              |
| Expiry of commodity premium          | (383)          | (860)          | -              | -              |
| Abandonment provision                | 4,168          | (173)          | -              | -              |
| Closing balance                      | 257,673        | 35,141         | -              | -              |

Includes borrowing costs capitalised of \$11.7 million at 30 June 2010 (2009: \$2.2 million).

|                          |         |         |   |   |
|--------------------------|---------|---------|---|---|
| Total oil and gas assets | 257,673 | 242,281 | - | - |
|--------------------------|---------|---------|---|---|

As at 1 January 2010 the development asset relating to the Kupe oil & gas field was determined to be operating within its maximum and minimum daily gas design parameters. On this date the Kupe field development asset was transferred to production assets. Production from the Kupe field commenced 4 December 2009. Income and expenditure from the production of gas, LPG and light oil for the period from 4 December 2009 to 31 December 2009 was capitalised.

## 20. Property, plant and equipment

| GROUP AND PARENT               | Land & Leasehold improvement<br>\$'000 | Fixtures and fittings<br>\$'000 | Computer Hardware & Technical Equipment<br>\$'000 | Total<br>\$'000 |
|--------------------------------|----------------------------------------|---------------------------------|---------------------------------------------------|-----------------|
| <b>At 1 July 2008</b>          |                                        |                                 |                                                   |                 |
| Cost                           | 145                                    | 132                             | 248                                               | 525             |
| Accumulated depreciation       | (13)                                   | (44)                            | (162)                                             | (219)           |
| Net book value                 | 132                                    | 88                              | 86                                                | 306             |
| <b>Year ended 30 June 2009</b> |                                        |                                 |                                                   |                 |
| Opening net book value         | 132                                    | 88                              | 86                                                | 306             |
| Additions                      | -                                      | 2                               | 40                                                | 42              |
| Depreciation charge            | (12)                                   | (14)                            | (77)                                              | (103)           |
| Closing net book value         | 120                                    | 76                              | 49                                                | 245             |
| <b>At 30 June 2009</b>         |                                        |                                 |                                                   |                 |
| Cost                           | 145                                    | 134                             | 288                                               | 567             |
| Accumulated depreciation       | (25)                                   | (58)                            | (239)                                             | (322)           |
| Net book value                 | 120                                    | 76                              | 49                                                | 245             |
| Opening net book value         | 120                                    | 76                              | 49                                                | 245             |
| Additions                      | 81                                     | 12                              | 100                                               | 193             |
| Depreciation charge            | (18)                                   | (19)                            | (65)                                              | (102)           |
| Closing net book value         | 183                                    | 69                              | 84                                                | 336             |
| <b>At 30 June 2010</b>         |                                        |                                 |                                                   |                 |
| Cost                           | 226                                    | 144                             | 337                                               | 707             |
| Accumulated depreciation       | (43)                                   | (75)                            | (253)                                             | (371)           |
| Net book value                 | 183                                    | 69                              | 84                                                | 336             |

## 21. Intangible assets

| GROUP AND PARENT               | 2010<br>\$'000<br>Computer software | 2009<br>\$'000<br>Computer software |
|--------------------------------|-------------------------------------|-------------------------------------|
| <b>At 1 July</b>               |                                     |                                     |
| Intangible assets (at cost)    | 528                                 | 521                                 |
| Less: Accumulated amortisation | (423)                               | (224)                               |
| Net book value                 | 105                                 | 297                                 |
| <b>Movement</b>                |                                     |                                     |
| Opening net book value         | 105                                 | 297                                 |
| Additions                      | 253                                 | 7                                   |
| Amortisation charge            | (192)                               | (199)                               |
| Closing net book value         | 166                                 | 105                                 |
| <b>At 30 June</b>              |                                     |                                     |
| Intangible assets (at cost)    | 781                                 | 528                                 |
| Less: Accumulated amortisation | (615)                               | (423)                               |
| Net book value                 | 166                                 | 105                                 |

## 22. Other financial assets

|                                     |     | GROUP          |                | PARENT         |                |
|-------------------------------------|-----|----------------|----------------|----------------|----------------|
|                                     |     | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Available-for-sale financial assets | (a) | 19,644         | 48,829         | -              | -              |
| Refundable security deposits        | (b) | 43             | 43             | -              | -              |
| Shares in subsidiaries (note 15)    |     | -              | -              | 66,716         | 73,455         |
| Total other financial assets        |     | 19,687         | 48,872         | 66,716         | 73,455         |

### (a) Available-for-sale financial assets

#### *Pan Pacific Petroleum NL*

The investment of 87.5 million shares in Pan Pacific Petroleum NL is recorded at market value at balance date of \$18.9 million and is classified for accounting purposes as an available-for-sale financial asset. The cost of this investment was the equivalent of NZ\$25.6 million (US\$17.8 million) and is held by Stewart Petroleum Co Limited.

#### *Coal Contract Option with Pike River Coal Limited*

The coal contract option issued by Pike River Coal Limited ("Pike") to the Group during the period is recorded at a market value of NZ\$0.7 million and is classified for accounting purposes as an available-for-sale financial asset. The cost of the coal contract option to the group was NZ\$0.7 million (US\$0.5 million).

The coal contract option was issued as part of an agreement for the Group to participate in Pike's May 2010 equity issue and subscribe for a convertible bond facility. The contract grants the Group an option to purchase an amount of Pike coal for the life of the mine. The coal contract option is exercisable at any time until 31 March 2012. The coal option enables the Group to enter into an offtake agreement to purchase Pike coking coal at market prices that are agreed on an annual basis. The maximum volumes which may be purchased under the offtake agreement would be the currently uncontracted coal quantities until 31 March 2013 and up to 30% of annual coal production for the remaining life of mine.

### (b) Refundable security deposits

Security deposits include amounts held by key suppliers as bonds for work to be undertaken and deposits with government agencies subject to license work programme commitments being met.

## 23. Payables

|                       |  | GROUP          |                | PARENT         |                |
|-----------------------|--|----------------|----------------|----------------|----------------|
|                       |  | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Trade payables        |  | 12,472         | 10,721         | 588            | 531            |
| Employee entitlements |  | 286            | 172            | 286            | 172            |
| Accrued expenses      |  | 572            | 384            | 404            | 384            |
| Interest payable      |  | 289            | -              | -              | -              |
| Royalties payable     |  | 6,497          | 17,995         | -              | -              |
| Stock overlift        |  | 598            | -              | -              | -              |
| Other payables        |  | 83             | 81             | 83             | 81             |
| Total payables        |  | 20,797         | 29,353         | 1,361          | 1,168          |

Payables denominated in currencies other than the presentation currency comprise \$3.5 million of payables denominated in US dollars; NZ dollar equivalent \$5.2 million. (2009: US dollars \$1.2 million; NZ dollar equivalent \$1.9 million)

## 24. Borrowings

|                                    | GROUP          |                | PARENT         |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>Secured - Current</b>           |                |                |                |                |
| Bank loans                         | 3,217          | -              | -              | -              |
| <b>Secured - Non-current</b>       |                |                |                |                |
| Bank loans                         | 59,588         | -              | -              | -              |
| Total interest bearing liabilities | 62,805         | -              | -              | -              |

Further information relating to maturity dates and contractual repayment terms of the borrowings is set out in note 30.

### (a) Assets pledged as security

At balance date the Group has a Letter of Credit facility in respect of the Tui oil field. At 30 June 2010 the Letter of Credit facility was US\$5.9 million (30 June 2009: US\$7.6 million). The Letter of Credit facility expires on 31 December 2015.

The Letter of Credit facility for the Tui oil fields is secured over the Group's assets other than those primarily relating to the Kupe, investments in Pike River Coal Limited, and a number of exploration assets.

At 30 June 2010 the Group has a project facility in respect of Kupe of NZ\$75 million and a Letter of Credit facility of NZ\$10 million with Westpac Banking Corporation. Drawings from the facility can be in NZD, AUD or USD. At 30 June 2010 NZ\$62.8 million of the project facility was drawn and the Letter of Credit was fully drawn.

The Kupe project facility is secured over the Group's Kupe assets. The facility is repaid progressively over the life until the facility is fully repaid by 31 March 2015.

## 25. Restoration and rehabilitation provision

|                                          | GROUP          |                | PARENT         |                |
|------------------------------------------|----------------|----------------|----------------|----------------|
|                                          | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Restoration and rehabilitation provision | 11,998         | 8,144          | -              | -              |
| Total non-current provisions             | 11,998         | 8,144          | -              | -              |

The restoration and rehabilitation provision is measured at the present value of the expected future cash flows as a result of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of the restoration activities includes the removal of facilities, abandoning of wells and restoring the affected areas.

### Movements in provisions

|                                                                     | 2010<br>\$'000 | 2009<br>\$'000 |
|---------------------------------------------------------------------|----------------|----------------|
| <b>Group</b>                                                        |                |                |
| Carrying amount at start of year                                    | 8,144          | 11,322         |
| Additional/(reduction) in provision recognised                      | 2,863          | (4,382)        |
| Increase/(decrease) in provision due to revision of passage of time | 1,345          | 406            |
| Revaluation of USD provisions                                       | (354)          | 798            |
| Carrying amount at end of year                                      | 11,998         | 8,144          |

## 26. Deferred tax assets and liabilities

|                                                                     | GROUP          |                | PARENT         |                |
|---------------------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                                     | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>The balance comprises temporary differences attributable to:</b> |                |                |                |                |
| <i>Deferred tax assets</i>                                          |                |                |                |                |
| Employee benefits                                                   | 86             | 51             | 86             | 51             |
| Accruals                                                            | 281            | -              | 102            | -              |
| Non-deductible provisions                                           | 3,360          | 2,444          | -              | -              |
| Tax losses                                                          | 3,697          | -              | -              | -              |
| Total deferred tax asset                                            | 7,424          | 2,495          | 188            | 51             |
| <i>Deferred tax liabilities</i>                                     |                |                |                |                |
| Exploration assets                                                  | (1,992)        | (1,398)        | (1,329)        | (890)          |
| Oil & gas assets                                                    | (26,383)       | (20,619)       | -              | -              |
| Capitalised borrowing costs                                         | (3,307)        | (3,434)        | -              | -              |
| Derivatives                                                         | -              | (214)          | -              | -              |
| Other financial assets                                              | (7)            | -              | -              | -              |
| Sub-total other                                                     | (31,689)       | (25,665)       | (1,329)        | (890)          |
| Net deferred tax assets/(liabilities)                               | (24,265)       | (23,170)       | (1,141)        | (839)          |
| <b>Movements:</b>                                                   |                |                |                |                |
| Net deferred tax asset/(liability) at 1 July                        | (23,170)       | (12,202)       | (839)          | 60             |
| Charged/(credited) to the income statement (note 9)                 | (1,041)        | (11,403)       | (302)          | (899)          |
| Foreign exchange differences                                        | (54)           | 435            | -              | -              |
| Closing balance at 30 June                                          | (24,265)       | (23,170)       | (1,141)        | (839)          |

The utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences.

## 27. Contributed equity of the Group and Parent

### (a) Share capital

|                    | 2010<br>Number of<br>Shares<br>000s | 2009<br>Number of<br>Shares<br>000s | 2010<br>\$'000 | 2009<br>\$'000 |
|--------------------|-------------------------------------|-------------------------------------|----------------|----------------|
| Ordinary shares    |                                     |                                     |                |                |
| Fully paid shares  | 389,093                             | 384,931                             | 353,697        | 347,163        |
| Partly paid shares | 4,415                               | 2,927                               | 44             | 29             |
|                    | 393,508                             | 387,858                             | 353,741        | 347,192        |

### (b) Movements in ordinary share capital:

|                                           | 2010<br>Shares<br>000s | 2009<br>Shares<br>000s | 2010<br>\$'000 | 2009<br>\$'000 |
|-------------------------------------------|------------------------|------------------------|----------------|----------------|
| Opening                                   | 387,858                | 387,358                | 347,192        | 345,989        |
| Issues of ordinary shares during the year |                        |                        |                |                |
| Shares issued                             | 3,919                  | -                      | 6,263          | 1,198          |
| Partly paid paid shares issued            | 1,731                  | 500                    | 286            | 5              |
| Closing balance of ordinary shares issued | 393,508                | 387,858                | 353,741        | 347,192        |

**(c) Ordinary shares**

Apart from the partly paid shares issued, all shares issued are fully paid. Each fully paid share issued is entitled to one vote.

**(d) Partly paid shares**

Information relating to the employee share ownership plan (ESOP), including details of shares issued under the scheme, is set out in note 32.

Partly paid shares issued by the company to participants of the ESOP are paid up to NZ\$0.01 per share on issue. Partly paid shares are entitled to a vote in proportion to the amount paid up.

## 28. Reserves

**(a) Reserves**

|                                                           | GROUP          |                | PARENT         |                |
|-----------------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                           | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Available-for-sale financial asset revaluation reserve    | (4,117)        | 21,279         | -              | -              |
| Share-based payments reserve                              | 366            | 278            | 366            | 278            |
| Foreign currency translation reserve                      | (4,946)        | 4,014          | -              | -              |
| Share revaluation                                         | -              | -              | 6,465          | 6,465          |
| Total reserves                                            | (8,697)        | 25,571         | 6,831          | 6,743          |
| <b>Movements:</b>                                         |                |                |                |                |
| <i>Available-for-sale investments revaluation reserve</i> |                |                |                |                |
| Balance 1 July                                            | 21,279         | -              | -              | -              |
| Revaluation (note 22(a))                                  | (25,396)       | 21,279         | -              | -              |
| Balance 30 June                                           | (4,117)        | 21,279         | -              | -              |
| <i>Share-based payments reserve</i>                       |                |                |                |                |
| Balance 1 July                                            | 278            | -              | 278            | -              |
| Share based payment expense                               | 368            | 278            | 368            | 278            |
| Transfer to share capital (options exercised)             | (280)          | -              | (280)          | -              |
| Balance 30 June                                           | 366            | 278            | 366            | 278            |
| <i>Foreign currency translation reserve</i>               |                |                |                |                |
| Balance 1 July                                            | 4,014          | (5,002)        | -              | -              |
| Currency translation differences arising during the year  | (8,960)        | 9,016          | -              | -              |
| Balance 30 June                                           | (4,946)        | 4,014          | -              | -              |
| <i>Share revaluation reserve</i>                          |                |                |                |                |
| Balance 1 July                                            | -              | -              | 6,465          | 6,465          |
| Balance 30 June                                           | -              | -              | 6,465          | 6,465          |

**(b) Nature and purpose of reserves**

*(i) Available-for-sale financial asset reserve*

This reserve relates to the equity investment in Pan Pacific Petroleum NL and coal contract option with Pike River Coal Limited that are classified as an available-for-sale financial assets. The reserve represents changes in the fair value of the investment from the original cost. Amounts are recognised in the income statement when the associated assets are sold or impaired.

*(ii) Foreign currency translation reserve*

Exchange differences arising on translation of companies within the Group with a different functional currency to the Group are taken to the foreign currency translation reserve. Subsidiary companies with a functional currency different to the Group are Stewart Petroleum Company Limited (USD) and ANZ Resources Pty Limited (AUS). Stewart Petroleum Company Limited holds the Tui asset and the investment in Pan Pacific Petroleum NL. The reserve is recognised in the income statement when the net investment is disposed of.

*(iii) Share revaluation reserve*

This reserve relates to the circumstances where wholly owned subsidiary companies have sold petroleum prospecting permit rights and have advanced the net sale proceeds to the parent company, the directors of the parent company have valued the investment in those companies to an amount not exceeding their underlying net assets. Amounts are recognised in the income statement when the wholly owned subsidiary is disposed of.

## 29. Reconciliation of profit after income tax to net cash inflow from operating activities

|                                            | GROUP          |                | PARENT         |                |
|--------------------------------------------|----------------|----------------|----------------|----------------|
|                                            | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Profit for the year                        | (3,255)        | 53,206         | (10,792)       | 72,609         |
| Depreciation and amortisation              | 15,670         | 13,632         | 294            | 302            |
| Deferred tax                               | 1,041          | 11,403         | 302            | 899            |
| Fair value (gain)/loss on derivatives      | 1,576          | (8,268)        | -              | -              |
| Loss on investment in associate            | 144            | 2,773          | -              | -              |
| Exploration and evaluation costs expensed  | 30,697         | 4,237          | -              | -              |
| Write-off of investment in subsidiaries    | -              | -              | 6,738          | -              |
| Items classified as financing activities   | 794            | 1,626          | -              | -              |
| Items classified as investing activities   | -              | (589)          | (773)          | 12             |
| Share of net loss of associate             | 11,470         | 3,914          | -              | -              |
| Share based payment expense                | 368            | 278            | 368            | 278            |
| Net foreign exchange differences           | 8,010          | (3,697)        | 7,015          | (8,543)        |
| Non-cash dividend                          | -              | -              | (10,346)       | (65,990)       |
| Other                                      | (367)          | -              | -              | -              |
| Change in operating assets and liabilities |                |                |                |                |
| (Increase)/decrease in trade debtors       | (7,343)        | 19,585         | (835)          | (242)          |
| Increase/(decrease) in trade creditors     | (11,410)       | (5,084)        | 354            | (89)           |
| Net cash inflow from operating activities  | 47,395         | 93,016         | (7,675)        | (764)          |

## 30. Financial risk management

Exposure to credit, interest rate, foreign currency, equity price, commodity price and liquidity risk arises in the normal course of the Group's business.

### (a) Market risk

#### (i) Foreign exchange risk

The Group is exposed to foreign currency risk on cash and cash equivalents, convertible bond, oil sales, capital commitments and borrowings that are denominated in a currency other than the Company's functional currency, New Zealand dollars (\$), which is the presentation currency of the Group. The Group manages its foreign currency risk by monitoring its foreign currency cash balances and future foreign currency cash requirements.

The Group's exposure to foreign currency risk has been disclosed in notes 11, 12, 14, 23 and 24.

#### (ii) Commodity price risk

Commodity price risk is the risk that the Group's sales revenue will be impacted by fluctuations in world commodity prices. The Group is exposed to commodity prices through its petroleum interests. Bank facility agreements require the Group to hedge a portion of its exposure to oil price risk. The premiums paid in relation to oil price hedging had all expired at balance date (2009: \$0.8 million). Fair value of these oil price options at 30 June 2009 were an asset of \$0.2 million.

#### (iii) Concentrations of interest rate exposure

The Group's main interest rate risk arises from short-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

### (b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with credit worthy counterparties and obtaining sufficient collateral where appropriate as a means of minimising the risk of financial defaults.

Financial instruments which potentially subject the Group to credit risk consist primarily of securities and short term cash deposits, trade receivables and a convertible bond issued to Pike River Coal Limited.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings, with funds required to be invested with a range of separate counterparties.

The Group has a significant credit risk exposure through its convertible bond to Pike River Coal Limited, however it has mitigated this risk by obtaining equal first ranking security (with other debt of up to \$20 million).

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

The Group has not renegotiated the terms of any financial assets which would result in the carrying amount no longer being past due or avoid a possible past due status.

The Group's maximum exposure to credit risk for trade and other receivables is its carrying value.

### (c) Liquidity risk

Liquidity risk represents the Group's ability to meet its contractual obligations. The Group evaluates its liquidity requirements on an ongoing basis. In general, the Group generates sufficient cash flows from its operating activities to meet its obligations arising from its financial liabilities and has liquid funds and debt facilities in place to cover potential shortfalls.

The following table sets out the contractual cash flows for all financial liabilities and for derivatives that are settled on a gross cash flow basis:

|                                  | 6 months<br>or less<br>\$'000 | 6-12 months<br>\$'000 | 1-2 years<br>\$'000 | 2-5 years<br>\$'000 | More than<br>5 years<br>\$'000 | Contractual<br>cash flows<br>\$'000 |
|----------------------------------|-------------------------------|-----------------------|---------------------|---------------------|--------------------------------|-------------------------------------|
| <b>GROUP - 30 JUNE 2010</b>      |                               |                       |                     |                     |                                |                                     |
| Secured borrowings               | 1,042                         | 2,175                 | 14,830              | 44,758              | -                              | 62,805                              |
| Payables                         | 20,797                        | -                     | -                   | -                   | -                              | 20,797                              |
| Total non-derivative liabilities | 21,839                        | 2,175                 | 14,830              | 44,758              | -                              | 83,602                              |
| <b>GROUP - 30 JUNE 2009</b>      |                               |                       |                     |                     |                                |                                     |
| Payables                         | 29,353                        | -                     | -                   | -                   | -                              | 29,353                              |
| Total non-derivative liabilities | 29,353                        | -                     | -                   | -                   | -                              | 29,353                              |
| <b>PARENT - 30 JUNE 2010</b>     |                               |                       |                     |                     |                                |                                     |
| Payables                         | 1,361                         | -                     | -                   | -                   | -                              | 1,361                               |
| Total non-derivative liabilities | 1,361                         | -                     | -                   | -                   | -                              | 1,361                               |
| <b>PARENT - 30 JUNE 2009</b>     |                               |                       |                     |                     |                                |                                     |
| Payables                         | 1,168                         | -                     | -                   | -                   | -                              | 1,168                               |
| Total non-derivative liabilities | 1,168                         | -                     | -                   | -                   | -                              | 1,168                               |

### (d) Capital management

The Group manages its capital through the use of cash flow and corporate forecasting models to determine its future capital requirements, and maintains a flexible capital structure which allows access to debt and equity markets to draw upon and repay capital as required. In July 2009 the company established a Dividend Reinvestment Plan which applies to dividends declared after 29 July 2009. The Group has a stable capital base and significant cash reserves from which it can pursue its growth aspirations.

### (e) Sensitivity analysis

The Group's reporting result at the end of each year is sensitive to financial risks from fluctuations in interest rates, commodity pricing, equity securities and currency risks. The Group's exposure to these risks is described in note 30(a).

The Group's estimated short term impacts of fluctuations in these areas of risk are summarised below:

An increase in the value of the New Zealand dollar against the United States dollar by 5% at balance date would be a decrease of \$4.8 million in Group profit before tax and a decrease by \$0.7 million in the foreign currency translation reserve in equity (2009: \$6.2 million decrease on profit before tax and \$1.4 million decrease in the foreign currency translation reserve).

An increase in the value of a barrel of oil at balance date by 10% would be an increase of approximately \$1.0 million in Group profit before tax for the year ended 30 June 2010 (2009: \$0.6 million increase).

An increase in interest rates at balance date by 1% would increase the Group's expected interest income for the following financial year by \$1.4 million (2009: \$1.7 million increase), based on maintaining current cash balances.

An increase in the value of equity securities held by the Group at balance date, which are categorised as available for sale financial assets, by 5% would increase the available for sale financial asset reserve in equity by \$0.9 million.

### (f) Recognised assets and liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement for disclosure purposes.

Derivative contracts classified as held for trading are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity.

**(g) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Effective 1 July 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the group's assets that are measured at fair value. The parent has no assets or liabilities that are measured at fair value.

|                                                       | Level 1<br>\$'000 | Level 2<br>\$'000 | Level 3<br>\$'000 | Total balance<br>\$'000 |
|-------------------------------------------------------|-------------------|-------------------|-------------------|-------------------------|
| <b>GROUP - AT 30 JUNE 2010</b>                        |                   |                   |                   |                         |
| <b>Assets measured at fair value</b>                  |                   |                   |                   |                         |
| Financial assets at fair value through profit or loss |                   |                   |                   |                         |
| Convertible Bond - equity option                      | -                 | -                 | 3,917             | 3,917                   |
| Available-for-sale financial assets                   | -                 | -                 | -                 | -                       |
| Shares held in Pan Pacific Petroleum NL               | 18,923            | -                 | -                 | 18,923                  |
| Coal Option Contract                                  | -                 | -                 | 721               | 721                     |
| <b>Total assets</b>                                   | <b>18,923</b>     | <b>-</b>          | <b>4,638</b>      | <b>23,561</b>           |
| <b>GROUP - AT 30 JUNE 2009</b>                        |                   |                   |                   |                         |
| <b>Assets measured at fair value</b>                  |                   |                   |                   |                         |
| Financial assets at fair value through profit or loss |                   |                   |                   |                         |
| Derivative financial instruments                      | -                 | 190               | -                 | 190                     |
| Available-for-sale financial assets                   | -                 | -                 | -                 | -                       |
| Shares held in Pan Pacific Petroleum NL               | 48,829            | -                 | -                 | 48,829                  |
| <b>Total assets</b>                                   | <b>48,829</b>     | <b>190</b>        | <b>-</b>          | <b>49,019</b>           |

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. These instruments are included in level 1. Instruments included in level 1 comprise primarily NZX 50 equity investments classified as available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- The fair value of the equity option component of the convertible bond with Pike River Coal Limited was valued using the Black-Scholes option valuation method. This valuation technique uses both observable and unobservable market inputs. The valuation of the equity option takes into account the exercise price on maturity, the term of the convertible bond, the conversion price at valuation date, expected price volatility of the underlying shares, the expected dividend yield and the risk free interest rate. The unobservable market inputs used for the valuation are the expected volatility that is based on historic volatility of the Pike River Coal Limited share price and the expected dividend yield.
- The fair value of the coal contract option with Pike River Coal Limited has been recognised with reference to an independent consultancy report commissioned by Pike River Coal Limited. The coal option was valued in the report based on the determination of what an active market participant may pay to acquire such an option. The valuation used two methodologies in determining the valuation (a) valuation based on recent market transactions and (b) valuation based on future coal price "protection".

The following table presents the changes in fair value of level 3 instruments.

|                                                                                                                          | Coal Option<br>Contract<br>\$'000 | Convertible<br>Bond - equity<br>option<br>\$'000 | Total<br>\$'000 |
|--------------------------------------------------------------------------------------------------------------------------|-----------------------------------|--------------------------------------------------|-----------------|
| <b>GROUP - AT 30 JUNE 2010</b>                                                                                           |                                   |                                                  |                 |
| Opening balance                                                                                                          | -                                 | -                                                | -               |
| Purchases                                                                                                                | 742                               | 5,303                                            | 6,045           |
| Gains/(losses) recognised in Other Comprehensive Income                                                                  | (21)                              | -                                                | (21)            |
| Gains/(losses) recognised on settlement date in the Income Statement                                                     | -                                 | 1,970                                            | 1,970           |
| Gains/(losses) recognised in the Income Statement                                                                        | -                                 | (3,356)                                          | (3,356)         |
| Closing balance                                                                                                          | 721                               | 3,917                                            | 4,638           |
| <b>Total gains/(losses) for the year included in income statement for assets held at the end of the reporting period</b> | -                                 | (1,386)                                          | (1,386)         |

The Group uses the Black-Scholes option valuation method with unobservable inputs in determining the fair value of the equity option component of the convertible bond at balance date. The fair value of the equity option is sensitive to the relevant inputs used. The impact of an increase in the historic volatility by 10% would increase the fair value by up to \$1.7 million and a 10% increase in the dividend yield would reduce the fair value by up to \$0.2 million.

**(h) Financial instruments by category**

|                                  | Held for<br>trading *<br>\$'000 | Available for<br>sale financial<br>asset *<br>\$'000 | Loans and<br>receivables<br>\$'000 | Other<br>amortised<br>cost<br>\$'000 | Total at<br>carrying value<br>\$'000 |
|----------------------------------|---------------------------------|------------------------------------------------------|------------------------------------|--------------------------------------|--------------------------------------|
| <b>GROUP – AT 30 JUNE 2010</b>   |                                 |                                                      |                                    |                                      |                                      |
| <b>Assets</b>                    |                                 |                                                      |                                    |                                      |                                      |
| Cash and cash equivalents        | -                               | -                                                    | 142,404                            | -                                    | 142,404                              |
| Receivables                      | -                               | -                                                    | 20,167                             | -                                    | 20,167                               |
| Convertible bond                 | 3,917                           | -                                                    | 36,016                             | -                                    | 39,933                               |
| Other financial assets           | -                               | 19,644                                               | 43                                 | -                                    | 19,687                               |
|                                  | 3,917                           | 19,644                                               | 198,630                            | -                                    | 222,191                              |
| <b>Liabilities</b>               |                                 |                                                      |                                    |                                      |                                      |
| Payables                         | -                               | -                                                    | -                                  | 20,797                               | 20,797                               |
| Borrowings                       | -                               | -                                                    | -                                  | 62,805                               | 62,805                               |
|                                  | -                               | -                                                    | -                                  | 83,602                               | 83,602                               |
| <b>AT 30 JUNE 2009</b>           |                                 |                                                      |                                    |                                      |                                      |
| <b>Assets</b>                    |                                 |                                                      |                                    |                                      |                                      |
| Cash and cash equivalents        | -                               | -                                                    | 174,753                            | -                                    | 174,753                              |
| Receivables                      | -                               | -                                                    | 10,366                             | -                                    | 10,366                               |
| Derivative financial instruments | 190                             | -                                                    | -                                  | -                                    | 190                                  |
| Other financial assets           | -                               | 48,829                                               | 43                                 | -                                    | 48,872                               |
|                                  | 190                             | 48,829                                               | 185,162                            | -                                    | 234,181                              |
| <b>Liabilities</b>               |                                 |                                                      |                                    |                                      |                                      |
| Payables                         | -                               | -                                                    | -                                  | 29,353                               | 29,353                               |
|                                  | -                               | -                                                    | -                                  | 29,353                               | 29,353                               |

\* Assets of the Group that have been classified as held for sale or available for sale financial assets are remeasured at fair value at balance date. The gain or loss on remeasurement to fair value is recognised immediately in the income statement for held for sale assets and in other comprehensive income for available for sale financial assets. Gain or losses on available for sale financial assets are recognised in the income statement when the associated assets are sold or impaired.

| <b>PARENT</b>                               | <b>Loans and<br/>receivables<br/>\$'000</b> | <b>Other<br/>amortised<br/>cost<br/>\$'000</b> | <b>Total carrying<br/>value<br/>\$'000</b> |
|---------------------------------------------|---------------------------------------------|------------------------------------------------|--------------------------------------------|
| <b>AT 30 JUNE 2010</b>                      |                                             |                                                |                                            |
| <b>Assets</b>                               |                                             |                                                |                                            |
| Cash and cash equivalents                   | 107,606                                     | -                                              | 107,606                                    |
| Receivables and advances to related parties | 204,468                                     | -                                              | 204,468                                    |
|                                             | 312,074                                     | -                                              | 312,074                                    |
| <b>Liabilities</b>                          |                                             |                                                |                                            |
| Payables                                    | -                                           | 1,361                                          | 1,361                                      |
|                                             | -                                           | 1,361                                          | 1,361                                      |
| <b>AT 30 JUNE 2009</b>                      |                                             |                                                |                                            |
| <b>Assets</b>                               |                                             |                                                |                                            |
| Cash and cash equivalents                   | 145,616                                     | -                                              | 145,616                                    |
| Receivables and advances to related parties | 180,974                                     | -                                              | 180,974                                    |
|                                             | 326,590                                     | -                                              | 326,590                                    |
| <b>Liabilities</b>                          |                                             |                                                |                                            |
| Payables                                    | -                                           | 1,168                                          | 1,168                                      |
|                                             | -                                           | 1,168                                          | 1,168                                      |

## 31. Related party transactions

### (a) Parent entity

The parent entity within the Group is New Zealand Oil & Gas Limited.

### (b) Directors

The names of persons who were directors of the Company at any time during the financial year are as follows: R A Radford; R F Meyer; P G Foley; A T N Knight; S J Rawson; D J Salisbury, D R Scoffham and P W Griffiths.

### (c) Key management and personnel compensation

Key management personnel compensation for the years ended 30 June 2010 and 30 June 2009 is set out below. The key management personnel are all the management and directors (executive and non-executive) of the Company.

|             | <b>Short-term<br/>benefits<br/>\$'000</b> | <b>Post-<br/>employment<br/>benefits<br/>\$'000</b> | <b>Other long-term<br/>benefits<br/>\$'000</b> | <b>Termination<br/>benefits<br/>\$'000</b> | <b>Share-based<br/>payments<br/>\$'000</b> | <b>Total<br/>\$'000</b> |
|-------------|-------------------------------------------|-----------------------------------------------------|------------------------------------------------|--------------------------------------------|--------------------------------------------|-------------------------|
| <b>2010</b> |                                           |                                                     |                                                |                                            |                                            |                         |
| Management  | 1,616                                     | -                                                   | -                                              | -                                          | 96                                         | 1,712                   |
| Directors   | 1,025                                     | -                                                   | -                                              | -                                          | 166                                        | 1,191                   |
|             | 2,641                                     |                                                     |                                                |                                            | 262                                        | 2,903                   |
| <b>2009</b> |                                           |                                                     |                                                |                                            |                                            |                         |
| Management  | 1,395                                     | -                                                   | -                                              | 176                                        | 63                                         | 1,634                   |
| Directors   | 1,024                                     | -                                                   | -                                              | -                                          | 167                                        | 1,191                   |
|             | 2,419                                     | -                                                   | -                                              | 176                                        | 230                                        | 2,825                   |

### (d) Other transactions with key management personnel or entities related to them

Information on transactions with key management personnel or entities related to them, other than compensation, are set out below.

Key management personnel in their capacity as employees were allocated partly paid shares under the Employee Share Ownership Plan (ESOP) during the year. The terms and conditions for the shares allocated under the ESOP are set out in note 32.

Mr R A Radford and Mr R F Meyer are directors of Pike River Coal Limited (Pike), which is an associate company. Details of transactions with Pike during the year are set out in (e) below.

Mr R A Radford is a director of and holds shares in Pan Pacific Petroleum NL (PPP). The Group acquired 88 million shares in PPP during the prior year.

Mr P G Foley is a partner in the firm of Minter Ellison Rudd Watts, Solicitors. Minter Ellison is a legal services provider to the Group on normal commercial terms and conditions.

#### **(e) Subsidiaries, Associates and Joint Ventures**

Related parties of the Company include those entities identified in note 14, 15, 16, 17 and 22 as subsidiaries, joint ventures and associates.

All transactions and outstanding balances with these related parties are priced on an arm's length basis and none of the balances are secured.

During the year ended 30 June 2010 the Group had the following transactions with associate Pike River Coal Limited ("Pike").

##### *Short Term Funding*

The Group provided short term funding to Pike, on commercial terms, of \$6 million that was drawn and repaid during the year. The Group received \$0.6 million in fees and interest from the short term funding arrangement.

##### *Share Placement and Rights Issue*

The Group was an underwriter for and participated in the \$10 million placement and \$40 million rights issue to the extent of its existing 29.5% equity interest in the associate. Under the rights issue and placement the Group was issued with 16.4 million shares in the associate at an issue price of \$0.88. The Group received \$0.5 million in fees as an underwriter for the share issues.

##### *Convertible Bond*

The Group issued a convertible bond facility to Pike during the year with a face value of US\$28.9 million. The facility is for a term of 2 years up to 12 March 2012 at an annual interest rate of 10%. The facility is a first ranking secured debt ranked equally with other Pike debt of up to NZ\$20 million.

The convertible bond facility can be converted to shares in Pike at the option of NZOG or repaid in cash. If the bond is converted to shares the conversion price will be subject to standard anti-dilution clauses in the agreement that will reduce the conversion price if further securities are issued at a lower price.

At 30 June 2010 the US\$28.9 million (NZ\$41.7 million) facility was fully drawn by Pike, with US\$0.3 million (NZ\$0.5 million) of interest income earned by the Group to 30 June 2010.

##### *Coal Contract Option*

As part of the agreement to participate in the equity issue and to issue a convertible bond facility, Pike granted the Group an option to purchase an amount of Pike coal for the life of the mine. The coal contract option is exercisable at any time until 31 March 2012. The coal option enables the Group to enter into an offtake agreement to purchase Pike coking coal at market prices that are agreed on an annual basis. The maximum volumes which may be purchased under the offtake agreement would be the currently uncontracted coal quantities until 31 March 2013 and up to 30% of annual coal production for the remaining life of mine. At 30 June 2010 the coal option had not been exercised by the Group.

There have been no other material transactions with related parties during the year.

## **32. Share-based payments**

Participation in the Employee Share Ownership Plan (ESOP) is open to any employee (including a non-executive Director) of the Company to whom an offer to participate is made by the Executive Appointments and Remuneration Committee. The Executive Appointments and Remuneration Committee, in its complete discretion, is responsible for determining which employees are to be offered the right to participate in the ESOP, and the number of partly paid shares that can be offered to each participating employee.

Under the ESOP partly paid shares are issued on the following terms:

### **1. Restriction periods**

Each partly paid share is issued on terms that require an Escrow Period to pass before the holder can complete payment for, and thereafter transfer, the shares. This has usually been 2 years. There is also a date 5 years after the offer date by which the issue price for the shares must be paid (this is called the "Final Date").

### **2. Issue price**

The issue price of each partly paid share is set at the time the offer is made to the participant and is currently set at the lesser of:

- a 20% premium to the Average Market Price on the date of the offer (being the volume weighted average market price over the previous 20 business days); and
- the last sale price of the Company's ordinary shares on the Business Day prior to the Final Date (or such greater amount that represents 90% of the weighted average price of the Company's ordinary shares over the 20 Business Days prior to the Final Date).

The pricing model ensures that the participant does not receive a share at a discount to market price at the time the final payment is made but does provide some protection if the market price reduces after the original offer date.

Participants are required to pay \$0.01 per share at the time of issue.

### 3. Rights

The rights attached to partly paid shares issued under the ESOP are the same as those attached to ordinary shares in the Company. The partly paid shares rank equally with the ordinary shares in the Company. However, the rights of each partly paid share to vote on a poll, and to dividends or other distributions of the Company, are a fraction equal to the proportion represented by the amount paid up in respect of the share as against the issue price set under the ESOP.

| Grant date                      | Final date    | Exercise price | Balance at start of the year<br>000s | Issued during the period<br>000s | Sold during the period<br>000s | Forfeited during the period<br>000s | Balance at end of the year<br>000s | Fully vested at end of the year<br>000s |
|---------------------------------|---------------|----------------|--------------------------------------|----------------------------------|--------------------------------|-------------------------------------|------------------------------------|-----------------------------------------|
| 28 Oct 2004                     | 28 Oct 2009   | \$1.08         | 100.0                                | -                                | (100.0)                        | -                                   | -                                  | -                                       |
| 30 Jun 2005                     | 30 Jun 2010   | \$1.13         | 50.0                                 | -                                | (50.0)                         | -                                   | -                                  | -                                       |
| 28 Oct 2005                     | 20 Jan 2011   | \$1.00         | 200.0                                | -                                | -                              | -                                   | 200.0                              | 200.0                                   |
| 28 Nov 2005                     | 28 Nov 2010   | \$1.14         | 75.0                                 | -                                | -                              | -                                   | 75.0                               | 75.0                                    |
| 18 Jul 2006                     | 18 Jul 2011   | \$1.20         | 25.0                                 | -                                | -                              | -                                   | 25.0                               | 25.0                                    |
| 31 Jul 2006                     | 31 Jul 2011   | \$1.21         | 65.0                                 | -                                | (20.0)                         | -                                   | 45.0                               | 45.0                                    |
| 1 Aug 2006                      | 1 Aug 2011    | \$1.19         | 75.0                                 | -                                | -                              | -                                   | 75.0                               | 75.0                                    |
| 19 Sep 2006                     | 19 Sep 2011   | \$1.08         | 100.0                                | -                                | -                              | -                                   | 100.0                              | 100.0                                   |
| 25 Jan 2007                     | 28 Oct 2009   | \$1.00         | 10.0                                 | -                                | (10.0)                         | -                                   | -                                  | -                                       |
| 25 Jan 2007                     | 30 Jun 2010   | \$1.00         | 5.0                                  | -                                | (5.0)                          | -                                   | -                                  | -                                       |
| 25 Jan 2007                     | 20 Jan 2011   | \$1.00         | 20.0                                 | -                                | -                              | -                                   | 20.0                               | 20.0                                    |
| 25 Jan 2007                     | 28 Nov 2010   | \$1.00         | 7.5                                  | -                                | (7.5)                          | -                                   | -                                  | -                                       |
| 25 Jan 2007                     | 18 Jul 2011   | \$1.00         | 2.5                                  | -                                | -                              | -                                   | 2.5                                | 2.5                                     |
| 25 Jan 2007                     | 19 Sep 2011   | \$1.00         | 10.0                                 | -                                | -                              | -                                   | 10.0                               | 10.0                                    |
| 25 Jan 2007                     | 1 Aug 2011    | \$1.00         | 7.5                                  | -                                | -                              | -                                   | 7.5                                | 7.5                                     |
| 02 Apr 2007                     | 02 Apr 2012   | \$1.06         | 500.0                                | -                                | -                              | -                                   | 500.0                              | 500.0                                   |
| 17 Sep 2007                     | 16 Aug 2012   | \$1.23         | 150.0                                | -                                | (50.0)                         | -                                   | 100.0                              | 100.0                                   |
| 08 Oct 2007                     | 08 Oct 2012   | \$1.22         | 75.0                                 | -                                | -                              | -                                   | 75.0                               | 75.0                                    |
| 05 Nov 2007                     | 05 Nov 2012   | \$1.26         | 150.0                                | -                                | -                              | -                                   | 150.0                              | 150.0                                   |
| 12 Nov 2007                     | 12 Nov 2012   | \$1.26         | 200.0                                | -                                | -                              | -                                   | 200.0                              | 200.0                                   |
| 24 Nov 2007                     | 24 Nov 2012   | \$1.28         | 600.0                                | -                                | -                              | -                                   | 600.0                              | 600.0                                   |
| 30 Oct 2008                     | 30 Oct 2013   | \$1.43         | 400.0                                | -                                | -                              | -                                   | 400.0                              | -                                       |
| 12 Jan 2009                     | 12 Jan 2014   | \$1.53         | 100.0                                | -                                | -                              | -                                   | 100.0                              | -                                       |
| 30 July 2009                    | 2 March 2014  | \$1.57         | -                                    | 200.0                            | -                              | -                                   | 200.0                              | -                                       |
| 30 July 2009                    | 14 April 2014 | \$1.67         | -                                    | 300.0                            | -                              | -                                   | 300.0                              | -                                       |
| 30 July 2009                    | 15 June 2014  | \$1.87         | -                                    | 150.0                            | -                              | -                                   | 150.0                              | -                                       |
| 30 July 2009                    | 23 June 2014  | \$1.91         | -                                    | 200.0                            | -                              | -                                   | 200.0                              | -                                       |
| 10 Nov 2009                     | 12 Oct 2014   | \$1.72         | -                                    | 300.0                            | -                              | -                                   | 300.0                              | -                                       |
| 5 Nov 2009                      | 2 Nov 2014    | \$2.04         | -                                    | 200.0                            | -                              | -                                   | 200.0                              | -                                       |
| 24 Dec 2009                     | 24 Nov 2014   | \$2.04         | -                                    | 230.0                            | -                              | -                                   | 230.0                              | -                                       |
| 13 Jan 2010                     | 23 Nov 2014   | \$2.04         | -                                    | 150.0                            | -                              | -                                   | 150.0                              | -                                       |
|                                 |               |                | 2,927.5                              | 1,730.0                          | (242.5)                        | -                                   | 4,415.0                            | 2,185.0                                 |
| Weighted average exercise price |               |                | \$1.22                               | \$1.84                           | \$1.12                         | \$-                                 | \$1.47                             | \$1.18                                  |

Share based payments are recognised based on the fair value of partly paid shares offered to employees at the issue date. The fair value at issue date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the partly paid shares, the vesting criteria, the non-tradable nature of the partly paid shares, the share price at issue date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the issued partly paid share. The assessed fair value (for NZ IFRS 2 purposes) at issue date of partly paid share issued during the year ended 30 June 2010 was 33 cents to 41 cents per share.

The model inputs for partly paid shares issued during the year ended 30 June 2010, in addition to the issue price, issue date and final date as summarised in the above table, include:

- (a) shares are paid to \$0.01 on issue
- (b) partly paid shares have a five year life and are exercisable after two years from the issue date
- (c) market price on issue date: \$1.58 - \$1.69
- (d) expected price volatility of the company's shares: 40%
- (e) expected gross dividend per share: 4.3% - 4.5%
- (f) risk free interest rate on the issue date: 2.78% - 2.81%

The expected price volatility is based on the historic volatility.

### 33. Commitments and contingent assets & liabilities

#### (a) Capital expenditure commitments

As at 30 June 2010 the Group had certain capital expenditure commitments in relation to the participation in the Kupe development. The actual costs will be dependent on a number of factors such as joint venture decisions including final scope and timing of operations.

#### (b) Exploration expenditure commitments

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

#### (c) Operating leases and commitments

The Group leases premises, plant and equipment. Operating leases held over properties give the Group the right to renew the lease subject to a redetermination of the lease rental by the lessor.

|                                                   | GROUP          |                | PARENT         |                |
|---------------------------------------------------|----------------|----------------|----------------|----------------|
|                                                   | 2010<br>\$'000 | 2009<br>\$'000 | 2010<br>\$'000 | 2009<br>\$'000 |
| Within one year                                   | 388            | 189            | 388            | 189            |
| Later than one year and not later than five years | -              | 172            | -              | 172            |
| Later than five years                             | -              | -              | -              | -              |
|                                                   | 388            | 361            | 388            | 361            |

During the year ended 30 June 2010 \$384,000 was recognised as an expense in the income statement in respect of operating leases (2009: \$202,000).

#### *Production commitments*

The Company is committed to certain operational commitments in respect of the Tui Joint Venture. These operational commitments relate to costs that are integral parts of the FPSO lease until 31 December 2015 with an option to extend to 31 December 2022 via one year renewal terms. The total committed by NZOG to the FPSO charter and operating and maintenance contracts for the initial period to 31 December 2015 is currently estimated to be US\$19.0 million.

#### (d) Contingent assets

The Group has an overriding royalty in relation to production from the Kupe field. As at balance date the Group was in discussions with the parties that have an obligation of paying the overriding royalty to agree the basis of the calculation. At balance date a reliable estimate of the economic inflow from the overriding royalties was not able to be determined.

#### (e) Contingent liabilities

As at 30 June 2010 the Company had no contingent liabilities (2009:\$Nil).

### 34. Earnings per share

| GROUP                                 |               |               |
|---------------------------------------|---------------|---------------|
|                                       | 2010<br>Cents | 2009<br>Cents |
| <b>(a) Basic earnings per share</b>   |               |               |
| Basic earnings per share              | (0.8)         | 13.7          |
| <b>(b) Diluted earnings per share</b> |               |               |
| Diluted earnings per share            | (0.8)         | 13.7          |

| GROUP                                                                                                                                     |                |                |
|-------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                           | 2010<br>\$'000 | 2009<br>\$'000 |
| <b>(c) Reconciliations of earnings used in calculating earnings per share</b>                                                             |                |                |
| Profit/(loss) for the year                                                                                                                | (3,255)        | 53,206         |
| Profit attributed to non-controlling interest                                                                                             | -              | -              |
| Profit from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share | (3,255)        | 53,206         |
| <b>(d) Weighted average number of shares used as the denominator</b>                                                                      |                |                |

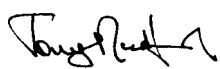
| GROUP                                                                                                                                      |                |                |
|--------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
|                                                                                                                                            | 2010<br>\$'000 | 2009<br>\$'000 |
| Weighted average number of ordinary shares used in calculating basic earnings per share                                                    | 392,052        | 387,903        |
| <i>Adjustments for calculation of diluted earnings per share:</i>                                                                          |                |                |
| Options                                                                                                                                    | -              | -              |
| Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share | 392,052        | 387,903        |

# Directors' Declaration

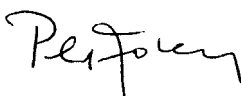
In the opinion of the Directors of New Zealand Oil & Gas Limited ("the Company"):

- (1) The financial statements and notes set out in the relevant pages of the Annual Report comply with the accounting standards issued by the New Zealand Institute of Chartered Accountants; and
- (2) The financial statements for the year to 30 June 2010 and notes to those financial statements give a true and fair view of the financial position and performance of the Company; and
- (3) There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



**R A Radford**  
Director  
10 September 2010



**P G Foley**  
Director  
10 September 2010

# Auditors Report

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

We have audited the financial statements on pages 7 to 42. The financial statements provide information about the past financial performance and financial position of the company and group as at 30 June 2010. This information is stated in accordance with the accounting policies set out on pages 13 to 19.

### 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 2010 and the results of their operations and cash flows for the year ended on that date.

### Auditors' responsibilities

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

### Basis of opinion

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

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

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

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

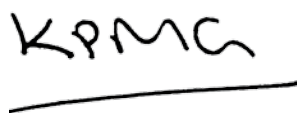
### Unqualified opinion

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

In our opinion:

- proper accounting records have been kept by the company as far as appears from our examination of those records;
- the financial statements on pages 7 to 42:
  - 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 2010 and the results of their operations and cash flows for the year ended on that date.

Our audit was completed on 25 August 2010 and our unqualified opinion is expressed as at that date.



Wellington

# Corporate Governance Statement

New Zealand Oil & Gas Limited is a limited liability company registered under the New Zealand Companies Act 1993. The Company is listed and its shares quoted on both the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX) under the code "NZO". This statement sets out the main corporate governance practices adopted by the Company. Unless otherwise stated, the Company's governance practices are considered to comply with the Corporate Governance guidelines issued by the NZX and ASX.

## BOARD OF DIRECTORS

The Board is responsible for the overall corporate governance of the Company including strategic direction, determination of policy, and the approval of significant contracts, capital and operating costs, financial arrangements and investments. In addition to statutory and constitutional requirements, the Board has a formal charter that sets out its functions and those of executive management, as well as a number of Board approved policies and protocols. These are available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance).

The number of Directors is specified in the constitution as a minimum of three and up to a maximum of seven. The 2009 Annual Meeting passed a resolution allowing for a 12 month temporary increase in the number of Directors to eight to assist with succession planning. At least two Directors must be persons ordinarily resident in New Zealand. Each year one-third of the Directors, other than the Managing Director, must retire by rotation. If eligible, each retiring Director may offer themselves for re-election. Details of the current Directors are set out in the table below:

| Director                                        | Appointed      | Position                      | Expertise                       |
|-------------------------------------------------|----------------|-------------------------------|---------------------------------|
| <b>Mr R A Radford</b> CA, FAICD                 | June 1981      | Chairman (Independent)        | Resource company management     |
| <b>Prof R F Meyer</b> ONZM, BE, PhD, DistFIPENZ | February 2000* | Deputy Chairman (Independent) | Engineering and energy          |
| <b>Mr P G Foley</b> BCA, LLB                    | July 2000      | (Independent)                 | Legal and finance               |
| <b>Mr P W Griffiths</b> BSc (Hons)              | December 2009  | (Independent)                 | Energy operations and finance   |
| <b>Mr A T N Knight</b> BMS CA(NZ)               | January 2008   | (Independent)                 | Energy operations and finance   |
| <b>Mr S J Rawson</b> BSc, MSc                   | July 2000      | (Independent)                 | Energy and trading              |
| <b>Mr D J Salisbury</b> BCA, LLB                | April 2007     | CEO and Managing Director     | Worldwide oil & gas exploration |
| <b>Mr D R Scoffham</b> MA, MSc                  | June 2003      | (Independent)                 | Worldwide oil & gas exploration |

\*Prof Meyer is retiring from the Board at the 2010 Annual Meeting.

## INDEPENDENT DIRECTORS

A majority of the Board are independent Directors. The Board has determined in terms of the NZX and ASX Listing Rules that as at 30 June 2010, Mr P G Foley, Mr P W Griffiths, Mr A T N Knight, Prof. R F Meyer, Mr R A Radford, Mr S J Rawson and Mr D R Scoffham are independent Directors. Mr D J Salisbury is not an independent Director because of his executive role. Although Mr Foley is a principal of a professional advisor to the Company, the Board has determined that this relationship is immaterial for the purpose of determining independence from the perspective of both the Company and the relevant Director.

## BOARD PROCEEDINGS

The Board meets on a formal scheduled monthly basis, and holds other meetings as required. The Chairman and the Managing Director establish the agenda for each Board meeting. As a regular item for each Board meeting, the Managing Director prepares an Operations Report that includes a Health, Safety and Environment report, a summary of the Company's exploration, development and production operations, a summary of new venture projects and opportunities, together with key financial and other reports. Key strategic issues and opportunities are also presented to the Board by management as part of each meeting.

To ensure that independent judgement is achieved and maintained in respect of its decision making, the Board has adopted a number of processes which include the following:

- Directors are entitled to seek independent professional advice at the Company's expense; and
- Directors with a conflict of interest in relation to a particular item of business must declare their interest, not vote on that business and absent themselves from Board meetings if required by the Board before commencement of discussion on the topic.

The Board is balanced in its composition with each current Director bringing a range of complementary skills and experience to the Company.

## BOARD COMMITTEES

The Board has two formally constituted committees to provide specialist assistance with defined aspects of governance; the Audit Committee, and the Executive Appointments and Remuneration Committee. Each committee has a written charter setting out its respective roles and responsibilities, which is available from the Company's website at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance). It is the Board's policy that all committees should be chaired by a non-executive Director and should comprise a majority of non-executive Directors.

The Audit Committee is required to contain one member with an accounting or financial background. The Board has determined that Mr Foley and Mr Knight have the requisite financial background for this requirement. The members of the Audit Committee are Mr Foley (Chairman), Mr Griffiths, Mr Knight and Mr Scoffham. The committee is responsible to the Board for overseeing the financial and internal controls, financial reporting, and audit practices of the Company. The Committee also oversees any trading in securities by Directors or employees. There are restrictions on trading outlined in the Security Trading Policy and Guidelines for Directors and the Security Trading Policy and Guidelines for Employees and Contractors, including a prohibition on any transaction which has the effect of limiting the risk of participating in unvested entitlements. Meetings of the Audit Committee are held at least twice a year. At the discretion of the Committee the external auditors, the Managing Director, the Chief Financial Officer and other senior executives attend these meetings. As outlined in the Audit Committee Charter, there is an annual process to consider engagement of auditors, having regard to the auditors' independence and policies for rotation of partners.

The members of the Executive Appointments and Remuneration Committee are Prof. Meyer (Chairman), Mr Foley and Mr Knight. Meetings are held at least twice a year. The Committee is responsible to the Board for recommending the remuneration policies and packages for the Chief Executive and appointees to the management team, and allocations of partly-paid shares under the employee share ownership plan (ESOP) and amendments to ESOP rules. The Committee operates independently of management and executive Directors.

The Board does not have a separate nominations committee. As outlined in the Board Charter, the Board as a whole undertakes the responsibility for the recruitment and appointment of Directors. The Board's policy is to:

- comply with the NZX Rules for inviting Director nominations from security holders; and
- undertake an annual review of Board membership to ensure its composition and the skills and experiences of its members meet the Company's requirements.

## MEETING ATTENDANCE:

| Director         | Board Meeting | Audit Committee | Executive Appointments & Remuneration Committee |
|------------------|---------------|-----------------|-------------------------------------------------|
|                  |               |                 |                                                 |
| Mr R A Radford   | 13 of 13      |                 |                                                 |
| Prof R F Meyer   | 13 of 13      | 2 of 2          | 2 of 2                                          |
| Mr P G Foley     | 12 of 13      | 4 of 4          | 2 of 2                                          |
| Mr P W Griffiths | 8 of 8        | 2 of 2          |                                                 |
| Mr A T N Knight  | 13 of 13      | 3 of 4          | 2 of 2                                          |
| Mr S J Rawson    | 12 of 13      |                 |                                                 |
| Mr D J Salisbury | 13 of 13      |                 |                                                 |
| Mr D R Scoffham  | 13 of 13      | 2 of 4          |                                                 |

## BOARD PERFORMANCE AND EVALUATION

The Board has a policy of conducting an annual review of its performance, the performance of its committees, and the performance of individual Directors. This is performed by way of a questionnaire submitted to Directors. Responses in respect of the performance of the Board and committees are collated and reviewed by the Board to guide performance improvement. An evaluation in accordance with the above process was performed during the past year. Individual Director performance is addressed by review with the Chairman of the Board.

## RESPONSIBILITIES OF THE BOARD

The Board is accountable for the performance of the Company. The specific responsibilities of the Board include:

- approving corporate strategy and performance objectives;
- establishing policies appropriate for the Company;
- oversight of the Company, including its control and accountability systems;
- approving major investments and monitoring the return of those investments;
- the overall risk management and control framework for the Company and ensuring appropriate risk management systems are established and applied;
- evaluating the performance of the Chief Executive;
- reviewing the performance of senior management;
- setting broad remuneration policy including approving allocations under the Company's employee share ownership plan;
- reviewing implementation of strategy and ensuring appropriate resources are available;
- nominating and appointing new Directors to the Board;
- evaluating the performance of the Board, sub committees of the Board, and individual Directors;
- reviewing and ratifying systems of risk management, internal compliance and control, codes of conduct, and legal compliance;
- approving and monitoring financial and other reporting;
- ensuring that the Company provides continuous disclosure of information such that shareholders and the investment community have available all information to enable them to make informed assessments of the Company's prospects;
- overall corporate governance of the consolidated entity;
- determining the key messages that NZOG wishes to convey to the market from time to time; and
- monitoring information commitments and continuous disclosure obligations.

## COMPANY POLICIES

While the Board has overall and final responsibility for the business of the Company, it has delegated substantial responsibility for the conduct of the Company's business and policy implementation to the Managing Director and his management team.

Board approved policies and procedures are in place to set parameters for the delegated responsibilities, including:

- Health and Safety Policy
- Environment Policy
- Code of Business Conduct and Ethics
- Communications and Market Disclosure Policy
- Securities Trading Policies for Employees and Directors
- Directors' Interest Policy
- Whistleblower Policy
- Delegated Authorities Manual
- Remuneration and Performance Appraisal Policy
- Oil Hedging Policy
- Funds Investment Policy
- Foreign Exchange: Transactions and Hedging Policy
- Carbon Obligations Policy
- Email and Internet Use Policy

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

### Health and Safety Policy

NZOG is firmly committed to the provision and progressive improvement of a safe and healthy work environment. The Company's Health and Safety Policy has the overriding objective that everyone who works with NZOG should return home in good mental and physical health.

NZOG's policy is to:

- provide a safe and healthy work environment;
- prevent exposure to unnecessary risks and to operate in a way that minimises health and safety hazards;
- actively monitor and continuously improve health and safety performance; and
- encourage safe and healthy lifestyles.

The full Health and Safety Policy is available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance).

### Environment Policy

NZOG is firmly committed to conducting its business in an environmentally responsible manner.

NZOG policy is to:

- respect and protect the environment;
- avoid unnecessary risks and operate at all times in a way that minimises environmental hazards; and
- actively monitor and continuously improve environmental performance.

The full Environment Policy is available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance).

### Code of Business Conduct and Ethics

NZOG's Code of Business Conduct and Ethics sets out the ethical standards expected of the Company's Directors, management, employees and dedicated contractors. NZOG strives to create a strong culture of honesty, integrity, loyalty, fairness, forthrightness and ethical behaviour.

NZOG Representatives are required to:

- act with high standards of honesty, integrity, fairness, and equity in all aspects of their involvement with NZOG;
- comply fully with the content and spirit of all laws and regulations which govern the operations of NZOG, its business environment, and its employment practices;
- not knowingly participate in illegal or unethical activity;
- actively promote compliance with laws, rules, regulations, and this code; and
- not do anything which would be likely to negatively affect NZOG's reputation.

The Code addresses in detail issues such as: conflicts of interest and corporate opportunities; protection and proper use of NZOG assets; confidential and proprietary information; intellectual property; competition and fair dealing; business entertainment and gifts; insider trading or tipping; and reporting of code violations.

The Code of Business Conduct and Ethics is available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance).

### Communications and Market Disclosure Policy

The Company complies with the continuous disclosure requirements and all other listing requirements of the NZX and ASX relating to shareholder reporting which enables the Company to ensure high quality and uniform disclosure of market sensitive information. The Communications and Market Disclosure Policy is available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance). Shareholders and interested parties can subscribe via the website to receive the Company's market announcements by email. The Company issues shareholder, annual, interim, and quarterly reports, which security holders can elect to receive in paper or electronic format. These documents are also posted on the Company's website.

### Security Trading Policies

The Company's Security Trading Policies set out procedures as to when and how an employee, contractor or Director can deal in Company securities. These policies are consistent with the Securities Markets Act 1998 and its insider trading procedures, and comply with the NZX and ASX rules. The Board ensures that these policies are up to date and compliant at all times with any changes to the law and to NZX and ASX listing rules. The Security Trading Policies are available at [www.nzog.com/corporategovernance](http://www.nzog.com/corporategovernance).

### Directors' Interests Policy

The Directors are required to recognise that the possibility of conflict of interest exists and are expected to declare and manage conflicts of interest in accordance with the Directors' Interests Policy, the Code of Business Conduct and Ethics, and the Company's Constitution. The Company maintains an Interests Register in compliance with the Companies Act 1993 which records particulars of certain transactions and matters involving Directors.

### Whistleblower Policy

The Company has a Whistleblower Policy addressing the making and handling of complaints relating to business and personal ethics. This policy aims to encourage employees and others to raise serious concerns for resolution, and to facilitate impartial investigation of any serious wrongdoing. The policy sets out the Company procedures for receiving and dealing with such disclosures and complaints.

### **Delegated Authorities Manual**

The Board has established formal limits of authority to provide clarity to the Managing Director and management so that they are in a position to carry out the business of NZOG in an efficient and effective manner within the parameters of proper corporate governance. The Delegated Authorities Manual set limits to financial commitments and other decision making, and is monitored by the Board through the audit function.

### **Remuneration and Performance Appraisal Policy**

The objective of the Company's remuneration policy is to provide fair and competitive remuneration to its Board, executives and staff in order for the Company to benefit by attracting and retaining a high quality team.

At the 2008 NZOG Annual Meeting, shareholders approved a resolution that Directors' fees be set at a maximum of \$600,000 per annum, being the combined total for all non-executive Directors. Directors also participate in the NZOG Employee Share Ownership Plan as detailed in this Annual Report, but otherwise do not receive any performance based remuneration.

The Executive Appointments and Remuneration Committee is responsible for receiving and making recommendations on remuneration policies for the Managing Director and senior executives based on assessment of relevant market conditions and linking remuneration to the Company's financial and operational performance. Executive remuneration may comprise salary, short term performance bonuses and share participation in accordance with the NZOG Employee Share Ownership Plan (as approved by shareholders.) A performance evaluation of senior executives is performed annually at the end of each financial year.

### **RECOGNISING AND MANAGING RISK**

The Company has implemented a risk management framework designed to ensure that its principal risks are identified and that controls are adequate, in place and functioning effectively.

The Board is responsible for the overall risk management and control framework for the Company and fulfills its responsibilities in this regard by reviewing and monitoring financial and reporting matters, and the Company's risk management and internal control processes.

Responsibility for control and risk management is delegated to the appropriate level of management, with the Chief Executive and the Chief Financial Officer having ultimate responsibility to the Board for the risk management and control framework.

Arrangements put in place by the Board to monitor risk management and internal control systems include:

- regular reporting to the Board and the Audit Committee in respect of operations, financial position and compliance requirements;
- reports by the Chairman of the Audit Committee and circulation to the Board of the minutes of each Audit Committee meeting;
- periodic review of the adequacy of the overall risk management framework; and
- periodic review of internal controls.

NZOG's Chief Executive and Chief Financial Officer provide a written declaration to the Audit Committee for each six-month reporting period, stating that:

- the declaration given is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board; and
- the Company's risk management and internal compliance and control framework is operating effectively in relation to financial reporting risks.

The Company maintains effective internal control by ensuring compliance with documented internal control procedures.

### **CORPORATE GOVERNANCE BEST PRACTICE CODES**

The Company's compliance with Corporate Governance Best Practice is actively monitored. This includes assessing compliance with the NZX Listing Rules and Corporate Governance Best Practice Code; and the ASX Listing Rules and Corporate Governance Best Practice Principles and Recommendations. NZOG is compliant with these rules and guidelines except as otherwise noted below.

NZOG does not encourage its Directors to take part of their remuneration by way of equity. However, Directors do participate in the NZOG Employee Share Ownership Plan as detailed in this Annual Report.

The NZOG Board has not established a separate nominations committee. The Board as a whole undertakes responsibility for the recruitment and appointment of Directors.

# Shareholder Information

## STOCK EXCHANGE LISTING

The Company's securities are listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

## SECURITIES ON ISSUE

At 31 July 2010 New Zealand Oil & Gas Ltd had the following securities:

|                             |             |
|-----------------------------|-------------|
| Listed Ordinary Shares      | 389,092,572 |
| Unlisted Partly Paid Shares | 4,415,000   |

## TOP 20 SHAREHOLDERS

Top 20 registered holders of Ordinary Shares as at 31 July 2010:

| Name of Registered Shareholder                   | Shareholding | % of Issued Capital |
|--------------------------------------------------|--------------|---------------------|
| National Nominees (New Zealand) Ltd              | 23,076,308   | 5.93                |
| Accident Compensation Corporation                | 20,092,215   | 5.16                |
| HSBC Nominees (New Zealand) Ltd                  | 12,216,089   | 3.14                |
| Resources Trust Ltd                              | 11,730,812   | 3.01                |
| New Zealand Superannuation Fund                  | 11,104,895   | 2.85                |
| Citibank Nominees (New Zealand) Ltd              | 7,042,707    | 1.81                |
| Leveraged Equities Finance Ltd                   | 6,185,109    | 1.59                |
| Sik-On Chow                                      | 5,802,672    | 1.49                |
| NZ Guardian Trust Investment Nominees Ltd        | 5,333,245    | 1.37                |
| AMP Investments Strategic Equity Growth Fund     | 4,942,768    | 1.27                |
| Kevin Glen Douglas and Michelle McKenney Douglas | 4,544,500    | 1.17                |
| Tea Custodians Ltd                               | 4,357,858    | 1.12                |
| Asteron Life Ltd                                 | 4,246,502    | 1.09                |
| Riuo Hauraki Ltd                                 | 3,621,570    | 0.93                |
| FNZ Custodians Ltd                               | 3,074,440    | 0.79                |
| Exploration Nominees Ltd                         | 2,899,820    | 0.75                |
| Custodial Services Ltd                           | 2,878,019    | 0.74                |
| Custody and Investment Nominees Ltd              | 2,856,590    | 0.73                |
| HSBC Nominees (New Zealand ) Ltd                 | 2,841,056    | 0.73                |
| ANZ Nominees Ltd                                 | 2,791,398    | 0.72                |

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

## SUBSTANTIAL SHAREHOLDERS

On 8 July 2010 a Substantial Shareholder Notice was issued in respect of the Accident Compensation Corporation; namely that ACC held 5.012% of the Ordinary Shares in New Zealand Oil & Gas Ltd. At 31 July 2010 there were no other substantial shareholders with 5% or more of the Ordinary Shares.

Substantial Shareholder Notices are received pursuant to the Securities Markets Act 1988. Shareholders with holdings of 5% or more are required to notify changes in relevant interests when those changes exceed 1% of the total issued voting securities.

## DISTRIBUTION OF LISTING HOLDINGS

Ordinary Shares as at 31 July 2010:

| Range             | Total holders | Units              | % of Issued Capital |
|-------------------|---------------|--------------------|---------------------|
| 1 - 99            | 94            | 4,127              | 0.00                |
| 100 - 199         | 51            | 6,493              | 0.00                |
| 200 - 499         | 275           | 91,286             | 0.02                |
| 500 - 999         | 1,912         | 1,209,004          | 0.31                |
| 1,000 - 1,999     | 2,809         | 3,667,855          | 0.94                |
| 2,000 - 4,999     | 3,718         | 11,518,253         | 2.96                |
| 5,000 - 9,999     | 2,550         | 16,853,460         | 4.33                |
| 10,000 - 49,999   | 3,335         | 65,074,360         | 16.72               |
| 50,000 - 99,999   | 421           | 27,530,484         | 7.08                |
| 100,000 - 499,999 | 347           | 64,089,696         | 16.47               |
| 500,000 - 999,999 | 27            | 18,374,126         | 4.72                |
| 1,000,000 plus    | 29            | 180,673,428        | 46.43               |
| Rounding          |               |                    | 0.02                |
| <b>Total</b>      | <b>15,568</b> | <b>389,092,572</b> | <b>100.00</b>       |

## VOTING RIGHTS

Article 22 of the Company's Constitution provides that on a show of hands at a general meeting, every shareholder present in person or by representative shall have one vote, and upon a poll, shall have one vote for each ordinary share held. The Board may determine ahead of a shareholder meeting that postal voting will be allowed.

## TRADING STATISTICS

| For the 12 months ended 30 June 2010         | High                 | Low                  |
|----------------------------------------------|----------------------|----------------------|
| NZX (Trading Code NZO)                       | NZ\$1.77 on 12/10/09 | NZ\$1.26 on 29/06/10 |
| ASX (Trading Code NZO)                       | A\$1.45 on 09/10/09  | A\$1.00 on 30/06/10  |
| Combined Volume of Shares Traded: 71,370,891 |                      |                      |

## DIRECTORS' REMUNERATION

The total remuneration and other benefits to Directors for services in all capacities during the year ended 30 June 2010 was:

|                   |           |
|-------------------|-----------|
| Mr R A Radford    | \$154,500 |
| Prof R F Meyer    | \$87,500  |
| Mr P G Foley      | \$77,083  |
| Mr P W Griffiths  | \$36,167  |
| Mr A T N Knight   | \$62,000  |
| Mr S J Rawson     | \$62,000  |
| Mr D J Salisbury* | \$559,000 |
| Mr D R Scoffham   | \$62,000  |

\*Remuneration received as Chief Executive.

## DIRECTORS' SECURITIES INTERESTS

The interests of Directors in securities of the Company at 30 June 2010 were:

**Mr R A Radford** in respect of 6,032,768 shares (indirect and direct interests)  
**Prof R F Meyer** in respect of 150,000 shares (indirect interest)  
**Mr P G Foley** in respect of 223,000 shares (indirect and direct interests)  
**Mr P W Griffiths** in respect of 10,500 shares (direct interest)  
**Mr A T N Knight** in respect of 162,000 shares (direct interest)  
**Mr S J Rawson** in respect of 157,500 shares (indirect and direct interests)  
**Mr D J Salisbury** in respect of 750,000 shares (indirect interest)  
**Mr D R Scoffham** in respect of 355,000 shares (indirect and direct interests)

During the year, Mr Radford acquired an indirect interest in 1,404,000 shares and reduced his indirect interest in shares following expiry of options over 1,450,000 shares and expiry of rights over 250,000 shares. During the year Mr Scoffham acquired an indirect interest in 80,000 shares.

## DIRECTORS' INTERESTS IN TRANSACTIONS

As at 30 June 2010, the following Directors had interests recorded in the Interests Register of the Company. Notices given or adjusted during the financial year ended 30 June 2010 are marked with an asterisk (\*). Each such Director will be regarded as interested in all transactions between the Company and the disclosed entity.

|                         |                                             |                             |
|-------------------------|---------------------------------------------|-----------------------------|
| <b>Mr R A Radford</b>   | Pan Pacific Petroleum NL (and subsidiaries) | Director                    |
|                         | Pike River Coal Limited                     | Director                    |
| <b>Prof R F Meyer</b>   | Pike River Coal Limited                     | Director                    |
| <b>Mr P G Foley</b>     | Minter Ellison Rudd Watts lawyers           | Partner                     |
|                         | National Provident Fund*                    | Member of Board of Trustees |
|                         | Annitas Management Limited*                 | Director                    |
| <b>Mr P W Griffiths</b> | Wanganui Gas Limited*                       | Director                    |
|                         | NZ Diving & Salvage Limited*                | Director                    |
|                         | Greenstone Energy Limited*                  | Director                    |
| <b>Mr A T N Knight</b>  | Powerco Limited                             | Director                    |
| <b>Mr S J Rawson</b>    | Mighty River Power Limited                  | Senior Executive            |

Messers Foley, Salisbury, Scoffham, Rawson and Griffiths are shareholders of Pike River Coal Limited. Mr Radford is a shareholder of Pan Pacific Petroleum NL.

## EMPLOYEES REMUNERATION

During the year ended 30 June 2010 14 employees (excluding the Chief Executive) received individual remuneration over \$100,000.

|                       |   |
|-----------------------|---|
| \$120,001 - \$130,000 | 2 |
| \$130,001 - \$140,000 | 2 |
| \$150,001 - \$160,000 | 1 |
| \$160,001 - \$170,000 | 1 |
| \$190,001 - \$200,000 | 1 |
| \$220,001 - \$230,000 | 1 |
| \$250,001 - \$260,000 | 2 |
| \$270,001 - \$280,000 | 2 |
| \$280,000 - \$290,000 | 1 |
| \$300,001 - \$310,000 | 1 |

## OFFICERS' SECURITIES INTERESTS

The interests of Company Officers (excluding the Chief Executive) in securities of the Company at 30 June 2010 were:

**Mac Beggs** in respect of 300,000 unlisted partly paid shares.

**Craig Jones** in respect of 300,000 unlisted partly paid shares.

**Ralph Noldan** in respect of 20,583 ordinary shares and 200,000 unlisted partly paid shares.

**Chris Roberts** in respect of 10,000 ordinary shares and 100,000 unlisted partly paid shares.

**Markus Schuh** in respect of 200,000 unlisted partly paid shares.

**Hugh Steed** in respect of 200,000 unlisted partly paid shares.

## DIRECTORS' AND 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.

## NZOG GROUP

Within this Annual Report reference to NZOG, New Zealand Oil & Gas Ltd and the Company are to be read as inclusive of the subsidiary companies within the consolidated group.

## CURRENCY

All amounts are New Zealand dollars unless otherwise specified. The NZD/USD exchange rate was 0.694 as at 30 June 2010.

# Corporate Directory

## DIRECTORS

Tony Radford  
Chairman CA, FAICD

Ray Meyer  
Deputy Chairman ONZM, BE, PhD, DistFIPENZ

Paul Foley  
BCA, LLB

Peter Griffiths  
BSc (Hons)

Andrew Knight  
BMs, CA(NZ)

Steve Rawson  
BSc, MSc

David Salisbury  
Managing Director BCA, LLB

David Scoffham  
MA, MSc

## MANAGEMENT

David Salisbury  
CEO & Managing Director BCA, LLB

Mac Beggs  
Exploration Manager BSc, MSc, PhD

Craig Jones  
Chief Financial Officer BBus, FCPA, FCIS, ASIA

Ralph Noldan  
General Counsel BCA, CA (NZ), Dip. Law (NSW)

Chris Roberts  
Corporate Affairs Manager BA, Dip.IR

Markus Schuh  
Reservoir Engineering Manager MSc

Hugh Steed  
New Ventures Manager BSc (Hons), PhD

## REGISTERED AND HEAD OFFICE

Level 20  
125 The Terrace  
PO Box 10725  
Wellington  
New Zealand  
Telephone + 64 4 495 2424  
Toll Free (within NZ) 0800 000 594  
Facsimile + 64 4 495 2422  
Email: [enquiries@nzog.com](mailto:enquiries@nzog.com)  
Website: [www.nzog.com](http://www.nzog.com)

## AUDITORS

KPMG  
KPMG Centre  
10 Customhouse Quay  
Wellington  
New Zealand

## SHARE REGISTRAR

### NEW ZEALAND

Computershare Investor Services Limited  
Private Bag 92119  
Auckland 1142  
Level 2  
159 Hurstmere Road  
Takapuna  
North Shore City 0622  
Freephone: 0800 467 335 (within NZ)  
Telephone: + 64 9 488 8777  
Facsimile: + 64 9 488 8787

### AUSTRALIA

Computershare Investor Services Pty Limited  
Yarra Falls, 452 Johnston Street  
Abbotsford VIC 3067  
GPO Box 2975  
Melbourne VIC 3001  
Australia  
Freephone: 1800 501 366 (within Australia)  
Telephone: + 61 3 9415 4083  
Facsimile: + 61 3 9473 2500

## MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your registered details including transactions, please visit [www.computershare.co.nz/investorcentre](http://www.computershare.co.nz/investorcentre)

General enquiries can be directed to:  
[enquiry@computershare.co.nz](mailto:enquiry@computershare.co.nz)

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

