



31 January 2005

QUARTERLY ACTIVITIES REPORT

HIGHLIGHTS

- Tui Oil Area development design concept confirmed
- Kupe Gas sales and funding agreement signed
- Kupe resource consent applications lodged
- Pike River coal sales contracts signed
- Pike River mine manager appointed

INTRODUCTION

During the quarter, emphasis has been on progressing the company's three major projects:

- Tui Area Oil Development
- Kupe gas/oil Development
- Pike River coal mine

While Tui and Kupe are operated by co-venturers during the period, NZOG invested substantial technical and financial resources into those projects.

Further work was also carried out over NZOG's several high-potential exploration prospects.

DEVELOPMENT PROJECTS

Tui Oil Area (PEP38460) NZOG 12.5%

Preliminary engineering and reservoir modelling studies have confirmed that a floating production, storage and off-take facility ("FPSO") linked to four or five subsea wells will be the optimal development for the Tui and Amokura/Pateke oil pools ("Tui Oil Area"). The proved and probable reserves base for the Tui Oil Area is 20-30 million barrels of recoverable oil.

Capital costs for the subsea and subsurface components of the development, currently expected to be in the range of US\$120-\$150 million will be refined by a front end engineering design ("FEED") study.

New Zealand Oil & Gas Limited
NZ Reg. Coy. No.WN 037 842 ARBN 003 064 962
E-mail: enquiries@nzog.net
Website: www.nzog.net

Level 20, 125 The Terrace
PO Box 10725
Wellington, New Zealand
Telephone: +64 4 495 2424
Facsimile: +64 4 495 2422

Preliminary reservoir modelling indicates that oil production will average 20,000 + barrels per day during the first nine months, i.e. 5.8 million barrels (NZOG 12.5% share 730,000 barrels). Production rates from the defined fields will reduce over approximately 10 years, subject to any additional reserves which may be discovered by drilling nearby prospects. Further reservoir modelling studies will be completed during the course of the FEED study to refine reserve estimates and determine optimal well location to drain oil.

The PEP38460 Joint Venture expects to award the FEED contract in February 2005, which will take up to six months to complete. This timing will allow a final financial investment decision to be made by the parties in August 2005, with first oil planned for December quarter 2006.

Kupe Gas and Oil (PML38146) NZOG 15%

A gas sales and farm-in contract was signed with Genesis Energy on 8 November 2004. This agreement provides for NZOG to sell 35 petajoules of Kupe gas to Genesis and secure funding for 85% of NZOG's share of development costs, up to a cap of NZ\$40 million.

An assessment of environmental effects (AEE) was completed and applications for resource consents were publicly notified in January 2005. The AEE forms the core regulatory approvals document in support of the resource consents process. Details such as the impact on marine ecology, air quality and archaeology are described in the AEE and demonstrate that the adverse effects of the Kupe development will be minimal.

Suitable contractors have been pre-qualified for construction of the offshore elements: platform fabrication, platform installation, offshore pipeline purchase and offshore pipeline installation and the engineering design necessary to go to tender has been completed.

Negotiations are taking place with Natural Gas Corporation ("NGC") for NGC to expand and provide the Kapuni Gas Treatment Plant to process the raw gas and light oil; if suitable commercial terms can be agreed, construction of a stand-alone production station will not be required. NZOG will be able to provide shareholders with some financial detail on the Kupe development once a decision on the production station has been made, expected to be during the first quarter 2005.

The Kupe Joint Venture has now set October 2005 as the target date for a final financial investment decision; this will provide sufficient time to complete an on and off-shore production facilities tender process.

Annual production from the initial Kupe development is expected to be 20 petajoules of gas. Around 1.7 million barrels of light oil is expected to be produced in the first 12 months, gradually reducing thereafter.

The Kupe permit area is prospective for additional gas, which could be added to the main field production in due course. These additional prospects may also contain oil in commercial quantities.

Pike River Coal (MP 41453) NZOG 72%

PRCC has entered into preliminary agreements with two major Japanese steel mills, for sale of a combined 450,000 tonnes per annum of coal, for a minimum four year term. These arrangements remain subject to several matters including price. Negotiations continue for additional similar contracts.

Pike River coal is a low ash, low phosphorus and high fluidity coke oven coal, valuable for use in the steel making process. International contracts for premium hard coking coal supplied in year commencing March 2005 have settled at around US\$125 per tonne, more than double last year's prices. Strong demand from China and India has driven metallurgical coal prices to these record levels, at least for the near term.

PRCC is reviewing the most cost-efficient coal transport route; there being several alternatives in the mix of transport options from the mine to the point of export. PRCC will soon shortlist contractors to tender for the optional coal transport route and process.

The current schedule is to have all infrastructure fully committed to by mid 2005, so that PRCC can make a final investment decision. Pike River's schedule envisages first coal production in the first half of 2006, with full production of 1 to 1.2 million tonnes per annum in the year commencing mid 2007.

The merits and desirable mix of financing the mine development through project debt/equity, including a public offer, continue to be assessed.

EXPLORATION

In addition to pursuing its three developments, NZOG continues working towards the drilling of several exploration prospects in the offshore Taranaki Basin.

West Maui Exploration (PEP 38460) NZOG 12.5 %

Several undrilled "Kapuni F sand" prospects exist within the Tui Oil Area, in the north of the permit area, as identified from 3D seismic data. Reservoir targets could be of similar size and quality to the Tui-Amokura-Pateke discoveries and further delineation of these prospects is continuing.

Hector prospects (PEPs 38483/38460) West Maui – NZOG 15%/12.5%

A large (414 sq km) new 3D seismic survey is planned over a series of Kapuni F sand prospects in the Hector area in the April-June quarter 2005.

West Kupe (PEP 38484) 50% – Taitapa prospect

Reprocessing of seismic data covering Taitapa, a Miocene prospect, has been completed. Mapping of this relatively shallow oil prospect (1500 m below sea level) by the joint venture partner and operator, OMV, is in progress to better delineate structural configuration and prospect size.

Mangatoa prospect (PEP 38478) - NZOG 50 %

Further evaluation points to this "Cretaceous" gas prospect (3.8 kilometres below sea level) having even greater size than previously assessed with reserves possibly as great as 3 trillion cubic feet. Further assessment of drilling options points to drilling a single vertical well offshore using a jack-up rig.

Felix prospect (PEP 38729) NZOG 75 %

The Felix oil prospect (an Eocene prospect), as identified on existing seismic data, is presently being refined through reprocessing of the seismic. The resultant, more refined, definition should be completed by June 2005. As Felix is in less than 50 metre water depth, a jack-up rig is the most likely means of drilling.

Exploration Drilling

Use of a jack-up rig to drill both Mangatoa and Felix later in 2005 may be feasible. The Taitapa prospect, west of the Kupe permit, is in deeper water and therefore likely to need a semi-submersible unit. In all cases, NZOG's large equity positions make it sensible for the company to trade some equity in exchange for funding of drilling costs.

Management

During the quarter, Dr Stefan Kleffmann, PhD in Geophysics, was recruited by NZOG from international petroleum consultancy RPS Troy-Ikoda, to the new position of Manager, Geophysics. Additional appointments to the exploration team are being progressed.

Mr Peter Whittall, MBE, BE (Mining) Hon, was appointed as Mine Manager of the Pike River mine, to take effect from 21 February 2004. Peter brings substantial experience with BHP Billiton as a manager of underground coal mines in NSW.



R A Radford
Executive Chairman
31 January 2005

Note:

References to *NZOG*, and *the company* are to be read as inclusive of the subsidiary companies within the consolidated NZOG group.

FOR FURTHER INFORMATION PLEASE CONTACT:

Gordon Ward
Telephone: (04) 495 2424 Toll free 0800 000 594

Website www.nzog.net
Email inquiries should be made to enquiries@nzog.net