



29 April 2005

**ACTIVITIES REPORT
FOR THE QUARTER ENDED
31ST MARCH 2005**

HIGHLIGHTS

- Pike pre-initial public offer value target of \$220 + million (NZOG share = \$160 million)
- Tui pre-development engineering design is on schedule
- 3D seismic acquired to define Pateke oil reserves better
- Kupe gas, oil and LPG reserves increased by 16%
- Mangatua prospectivity upgraded
- Hector 3D seismic acquired with possible drilling in first half 2006

1. INTRODUCTION

The emphasis during the March 2005 quarter was on progressing NZOG's three development projects: Kupe gas/light oil, Tui Area oil and Pike River coal, all of which remain on-track for formal investment decisions during the course of 2005. Once developed, these projects promise to generate substantial cash flow, providing a solid base for further company growth.

At the current date, the Company's best estimate for first production, subject to the inherent complexities and uncertainties associated with any development project, is for Pike and Tui to commence production in the second half of next year and Kupe production in the second half of calendar year 2007.

2. DEVELOPMENT PROJECTS

2.1 PIKE RIVER (MP 41453) NZOG 72% (via Pike River Coal Company Limited)

Pike River mine development and operating/transport costs were established during the March quarter by Sydney-based mining consultancy, Minarco Asia Pacific Pty Limited, to $\pm 15\%$ accuracy level

The final cost estimates, upon which a development decision will be based, will be provided through tender processes for the access road, tunnel construction, dewatering plant (where coal is separated from water following transport in a coal slurry pipeline) and the transport chain.

A detailed road survey was completed during the quarter to facilitate final road design, preparatory to a request for tenders scheduled for May/June. Drilling to assist design of the pit bottom area is underway.

Third party/broker forecasts of coal prices have led PRCC to estimate an average sales price of US\$110 per tonne for first projected production in the period ended 31 March 2007, then levelling out to a long term average of US\$63 per tonne from 2010 onwards. The average prices use the Queensland premium hard coking coal as the benchmark, adjusted for the higher sulphur/lower ash Pike coal qualities.

Work remains on schedule for a formal investment decision, subject to financing, by the PRCC Board in June 2005.

2.2 TUI OIL AREA (PEP38460) NZOG 12.5%

The Tui venture operator is continuing engineering and development work with the expectation that a formal investment decision can be made with the joint venture partners in the third quarter of 2005. Houston-based engineering firm, Mustang were appointed initial engineering and design contractor. The initial engineering design study remains scheduled to be completed by August 2005 to generate a capital expenditure estimate to $\pm 15\%$ accuracy. The venture operator is sourcing a semi-submersible rig to drill the 4 planned development wells. At least one exploration well is likely to be drilled in the first half of 2006, aimed at increasing reserves in the Tui Area.

The estimate of proved and probable reserves (recoverable oil) for the Amokura-Tui-Pateke discoveries is within the 20-30 million barrels range. To assist reserves definition, 80 km of 3D seismic were acquired over the northern portion of Pateke. Subsurface modelling work was completed and confirms that relatively long horizontal wells and/or multi-lateral wells are the preferred means of optimising economic recovery from the oil pools. These wells are being designed to allow high initial production rates in the vicinity of 30,000+ barrels of oil per day. The nature of the thin reservoirs will lead to a rapid rise in water production, so facilities will also be designed to handle large volumes of associated water.

Assuming the development decision is made on schedule, production of oil should commence in the last quarter of 2006.

2.3 KUPE GAS, OIL AND LPG (PML38146) NZOG 15%

The optimum subsurface development scheme for the Central Field is currently being incorporated into an overall development plan to supply around 20 petajoules of sales gas per annum, together with condensate and LPG production commencing at rates of 1.7 million barrels and 45,000 tonnes per annum, respectively.

As announced to stock exchanges on 1 April 2005, the Kupe venture has decided to build its own onshore processing facility to give better security and control over the project.

The decision to construct new facilities was compared with proposals to process toll gas through third party facilities (including NGC's Kapuni production station), and was arrived at only after thorough evaluation of all technical and commercial factors (including costs and project risks for both alternatives). This decision will result in a substantially higher capital investment by the Kupe parties, which will be offset by a reduction in operating costs.

As announced to stock exchanges, by both NZOG and Origin Energy (operator) on 22 April 2005, reserves in the initial development (Central Field) have been redetermined and now stand at 394 petajoules equivalent, a 16.5% increase on prior estimates, as shown in the following table.

Kupe Reserves – Proven and Probable		
<i>Product</i>	<i>Estimated Recovery</i>	<i>Estimate expressed in PJ (100%)</i>
Sales gas	281 PJ	281
LPG	627,000 tonnes	31
Condensate	14.7 million barrels	82
Total (PJE)		394

Subject to receipt of government approvals, the Kupe partners expect to be in a position to make a formal investment decision to proceed with development in the fourth quarter 2005, in which case production would commence in late 2007.

3. PROJECT VALUES

The Company has received a number of requests that it publish valuations of its interests in the Tui, Kupe and Pike River projects.

However, to do so would be unusual, as this is more the role of analysts in sharebroking firms, an action which the Company has been encouraging. There are also constraints on the Company in the context of joint venture agreement obligations and commercial considerations related to various contract negotiations by the joint venture operators. The Company remains confident at this time that both Tui and Kupe will be brought into commercial development and provide good returns.

In the case of Pike, where no joint venture constraints exist, it can be stated that PRCC has placed a pre-IPO investment target value of NZ\$220 + million on the project, of which NZOG's equity is 72% (approximately \$160 million).

4. EXPLORATION AND APPRAISAL

West Maui - Tui Area (PEP 38460) 12.5%

3D seismic data were acquired over the northern portion of the Pateke oil field. Advanced geophysical studies are continuing to evaluate several subtle closures close to Tui-Amokura-Pateke oil fields. Prospects of interest include Tieke, formerly called Weka (7 km SE of Tui), Matuku (20 km SW of Tui) and Taranui (20 km NE of Tui). Tieke is predicted to be updip from Tui and therefore there is a good possibility of oil charge. Tieke and Matuku each have unrisks potential for 25 million barrels at the Kapuni "F" sands level, while Matuku also has potential to contain oil in the C and D sand levels of the Kapuni formation. Taranui's potential is unrisks 40 million barrels at the "F" sands (but is located further from the "kitchen area") and is therefore riskier. Any discoveries in these prospects could be rapidly tied into a Tui development.

Mangatoa Prospect (PEP 38478) 50% - Exploration Well

Further petrophysical studies have upgraded the prospectivity of the Mangatoa Prospect. The study has shown that the Te Ranga-1 well, drilled in 1986, intersected a "live" gas column of 54 metres thick net reservoir in the Cretaceous reservoir sands. This essentially elevates the well from a "hydrocarbon shows" to a "discovery" well status. The Te Ranga well operator did not flow test the discovery. NZOG and licence partner Origin Energy, are offering up to half their equity for farmin.

Felix Prospect (PEP 38729) 75%

Reprocessing of the seismic data over this Eocene oil prospect has been completed. Mapping of these data and depth conversion studies are currently being carried out to obtain a more accurate structural configuration and prospect size.

Felix could be drilled in combination with Mangatua using a jack up rig.

Hector Prospects (PEP 38483) ~19%

During the quarter, NZOG increased its interest in the Hector area to 18.86% ahead, of conducting a 3D survey over the Hector Prospect. Processing of this seismic is currently being carried out. Results from these data will greatly enhance the Company's ability to map targets similar to Amokura-Tui-Pateke discoveries accurately.

The Hector area is considered highly prospective due to a combination of favourable reservoir development in the Kapuni Formation (F sand) and the proximity to the hydrocarbon "kitchen" sourcing these reservoir sands.

West Kupe (PEP 38484) 50% - Taitapa and Gamma Prospects

After completing its analysis of new seismic (acquired last year) the venture operator, OMV, has identified Taitapa and Gamma as the two primary exploration drilling targets in this permit. Both prospects have potential for more than one oil zone: there are two potential reservoirs at Miocene level in Gamma and both Miocene and Cretaceous reservoirs in Taitapa.



On behalf of the Directors

R A Radford

Executive Chairman

29 April 2005

Notes:

1. References to *NZOG*, and *the company* are to be read as inclusive of the subsidiary companies within the consolidated NZOG group.
2. Where appropriate, activities and events occurring after 31 March 2005 have been included in this report.
3. The pre-IPO target for PRCC is not a guarantee of future performance and involves known and unknown risk, uncertainties and other factors that could cause a materially different outcome.

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