



# NEW ZEALAND OIL & GAS LIMITED

ACTIVITIES REPORT FOR THE QUARTER ENDED 30 JUNE 2005

## HIGHLIGHTS

- Petroleum mining permit application lodged over Tui Oil Area
- \$42.5 million raised from options exercise
- Tui project on track
- Kupe construction tender documents issued
- Pike River mine plan finalised

## INTRODUCTION

During the June 2005 quarter solid progress was achieved with NZOG's three development projects: Kupe gas/light oil, Tui Area oil and Pike River coal.

Contract prices for key components of both the Tui and Pike projects were tendered and formal investment decisions are targeted on both projects for the current quarter. Engineering work proceeded on Kupe, with the current project schedule being to have formal approval in place within the March 2006 quarter.

NZOG received a high level of support from investors who contributed \$42.5 million for the exercise of listed options during June 2005, which represented 98.7% of the options on issue.

NZOG has decided to drill the Taitapa prospect in PEP38484.

## DEVELOPMENT PROJECTS

### **Pike River (MP 41453) NZOG 72% (via Pike River Coal Company Limited)**

During July 2005, the PRCC Board approved a revised mine plan, production schedule and capital/operating costs budget. Higher steel prices and an extremely tight construction market placed upward pressure on capital costs, in common with other Australasian new mine developments, leading to an upward revision of funds for the Pike mine development to approximately NZ\$100 million. The optimal mix of debt to equity remains under consideration by the PRCC Board and the mine will move into the development phase upon these arrangements being finalized.

The financial model updated in July 2005 by PRCC, arrives at a target value of approximately NZ\$180 million; assuming a long term coal sales price of

US\$63/tonne (unchanged from the prior model) and a somewhat stronger New Zealand dollar cross rate against the USD (58 cents compared to 56 cents used in the prior model). The assumed long term coal price of US\$63/tonne is about half the price applicable at present. As all Pike coal sales will be denominated in US dollars, the change in the long term forecast exchange rate has reduced the Pike net present value by approximately NZ\$20 million. There will continue to be variations to the project valuation depending on the two main factors: exchange rate and coal price.

During the June 2005 quarter, assessment of the two alternative export ports continued. Port Taranaki and Port Lyttelton can both provide facilities for panamax vessels (60,000 to 70,000 tonnes). PRCC's evaluation has taken longer than originally expected, as each route requires extensive capital works to transport up to 1.3 million tonnes of Pike coal per annum. PRCC intends that a decision on the final coal transport route be made in the September 2005 quarter.

#### **Tui Oil Area (PEP 38460) NZOG 12.5%**

A petroleum mining permit ("PMP") application was lodged on 9 June 2005 with the Ministry of Economic Development for the development of the Tui Oil Area fields contained within PEP38460.

The PEP38460 joint venture, in which NZOG holds a 12.5% equity, has also signed up with Diamond Drilling Co to use the semi-submersible rig Ocean Patriot to drill the four production wells next year. This action has been taken ahead of the formal investment decision, because of the tight market for available rigs.

Contractor proposals for a floating storage and offloading ("FPSO") facility for the Tui fields are being evaluated by the venture operator. Engineering work is on schedule for completion by August 2005 and capital costs are being refined to a tolerance of 15%. While not yet finalised, costs will be above the US\$150 million cap previously estimated, reflecting heavy demand for products and services in the industry.

Initial rates of Tui Area oil production are expected to be 30,000+ barrels per day, which should result in rapid payback of the investment based on oil prices of US\$35 per barrel (currently US\$58 per barrel).

A formal investment decision for the Tui Area oil development is on track to be made by joint venture parties in Sept/Oct 2005.

#### **Kupe Gas, Oil and LPG (PML 38146) NZOG 15%**

Development of the Kupe project continued, with tenders invited during the quarter for platform fabrication, offshore installation and drilling. Detailed design and tendering for the onshore gas production facility is also underway with selected international companies.

Award of tenders for the project is scheduled for the December 2005 quarter although tight petroleum and resource industry conditions internationally have the potential to impact the project development schedule.

The regulatory approval process is proceeding to schedule with South Taranaki District Council consents obtained in May and Taranaki Regional Council consents in June 2005. These consents are subject to public appeal with one appeal having been lodged in early July. Landholder negotiations continue for various easements.

The current project schedule is targeting all project approvals to be in place by the first quarter 2006 and the joint venture is investigating strategies to mitigate any potential impact that regulatory appeals and the current high level of construction activity in the petroleum industry may have on first gas deliveries.

## **EXPLORATION**

#### **Tui Area (PEP 38460) 12.5%**

At least two of the Tui Area oil prospects, which lie close to the planned Tui development, are expected to be drilled as part of the next drilling programme, most likely utilising the Ocean Patriot semi-submersible rig.

Prospects of interest include Tieke, formerly called Weka (7 km SE of Tui), Oi (10km NE of Tui), Matuku (20 km SW of Tui), Taranui (20 km NE of Tui) and Taranui South (15km NE of Tui). In addition to the work done by the venture operator, NZOG is carrying out its own assessment of the prospectivity of these prospects and is evaluating the 3D seismic data recently recorded over the northern extension of the Pateke oil field.

Of these prospects, Tieke lies up-dip from Tui and hence has a good possibility of oil charge. Tieke has an unrisks potential for 25 million barrels at the Kapuni "F" sands level. Taranui has higher potential (40 million barrels at the "F" sands), but is less optimally located for oil charge.

Any discoveries resulting from drilling these prospects could be tied into the initial Tui development.

### Hector Prospects (PEP 38483) 19%

The Hector 3D seismic survey was acquired in April 2005. Processing of the seismic data is progressing well and will be completed in August. Seismic interpretation and detailed evaluation of the Hector Prospect will follow as soon as the processed data become available, ahead of a decision on drilling.

The Hector area is considered highly prospective due to a combination of favourable reservoir development in the

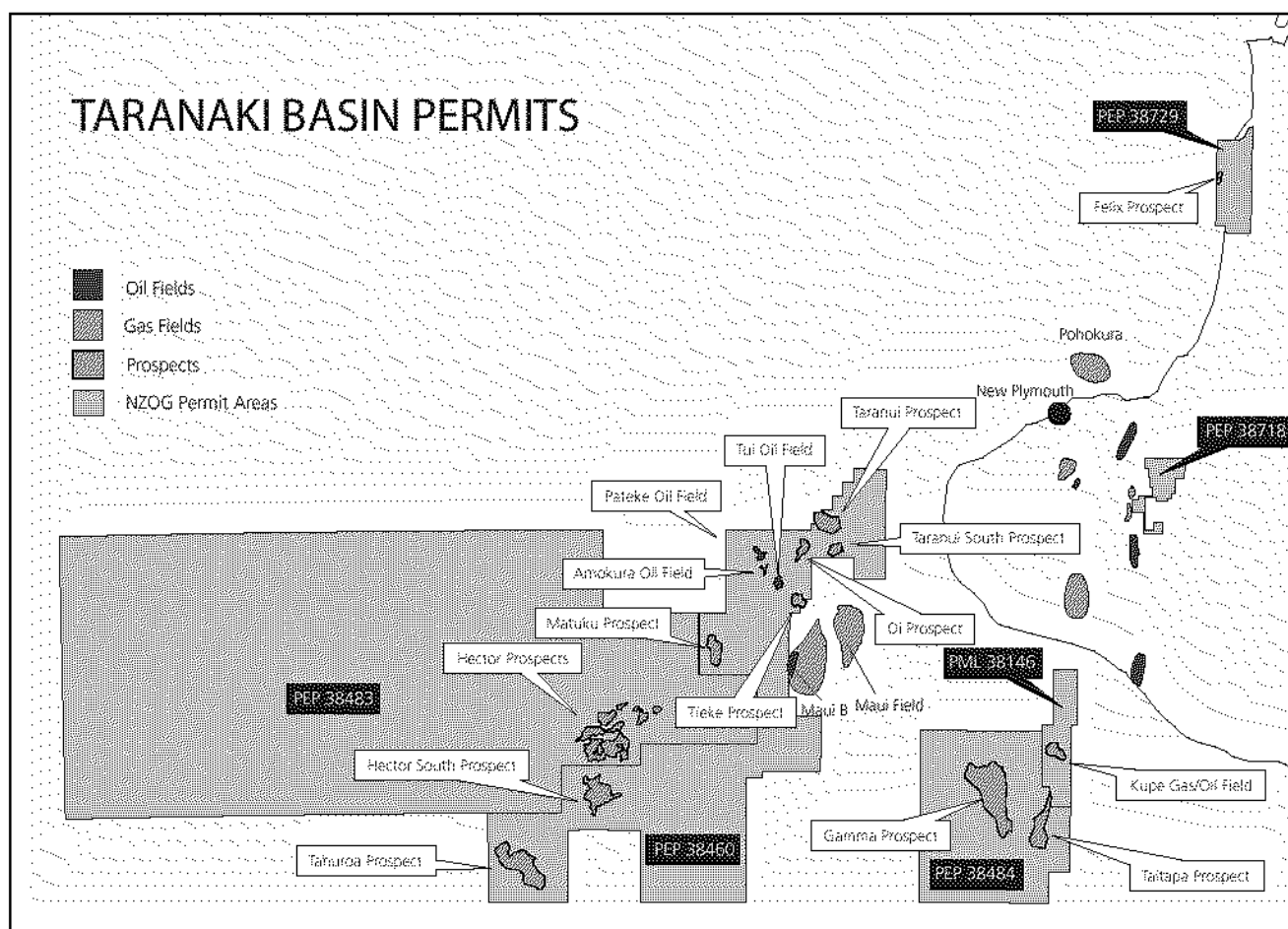
Kapuni Formation (F-sands) and the proximity to the hydrocarbon "kitchen" sourcing these reservoir sands.

### Felix Prospect (PEP 38729) 75%

Mapping and depth conversion studies of reprocessed 2D seismic data over the Felix prospect were completed by the joint venture. The primary reservoir target is the Kapuni "C-sand". There is strong evidence from the Opito-1 well (drilled by NZOG in 2002) and modern seismic velocity data, that a trapping structure exists. Further depth conversion studies will be conducted in the near term to increase confidence in the structural closure, ahead of a drilling decision being made.

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

NZOG has decided to drill an exploration well in PEP 38484 and expects to shortly acquire full ownership of the permit. NZOG is in the process of securing a jack-



up rig and is confident of bringing other companies into the project ahead of drilling. After completing analysis of seismic data acquired last year, two large prospects; Taitapa and Gamma have been defined as worthy of drilling. There are two potential reservoirs at Miocene level in Gamma and both Miocene and Cretaceous reservoirs in Taitapa.

Taitapa is a fault bound structural closure about 24 km south of the Kupe central field area.

#### **Mangatoa Prospect (PEP 38478) 50%**

On 10 June 2005, NZOG announced that subsidiary Petroleum Resources Limited had relinquished its interest in PEP38478 (Mangatoa prospect). The large potential of Mangatoa was offset by expected tight reservoir with consequent significant risks in obtaining adequate gas flow rates and potentially high development costs. While NZOG was keen to see Mangatoa drilled, and was prepared to contribute some funds for that purpose, it was not prepared to over-extend itself on a single gas prospect with costs for an initial well likely to exceed \$20 million.

#### **New Acreage Bidding Rounds**

The New Zealand government is making a series of new petroleum block offers in the Taranaki, Northland, East

Coast and Great South Basins under a series of bidding rounds over the next 9 months.

NZOG is actively reviewing opportunities in these areas with a view to participating in the bidding for new permits.

On behalf of the Directors



R A Radford  
Executive Chairman  
29 July 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 30 June 2005 have been included in this report.
3. Project values are not a guarantee of future performance and have uncertainties as to various factors, including commodity prices, exchange rates and capital and operating costs and other factors that could cause a materially different outcome.



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