



ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2005

HIGHLIGHTS

- Pike River coking coal mine to proceed
- Saurashtra Fuels to invest \$17m in PRCC
- Tui development contract negotiation underway
- Kupe resource consent appeal resolved
- Hector exploration well planned

INTRODUCTION

The first of NZOG's three major development projects, Pike River Coal, received the "green light" during the September 2005 quarter. Substantial investments by India's largest privately owned coke maker, and NZOG, paved the way for the formal investment decision (FID). The Tui oil project is proceeding in a positive fashion with contracts in a final form or advanced stage of negotiation and FID is expected in two to three weeks. A substantial increase in capital costs on the Kupe project has been offset in part by higher oil and LPG prices. NZOG and its PEP 38483 partners are planning to drill the high potential Hector oil prospect.

DEVELOPMENT PROJECTS

Pike River (MP 41453) NZOG 69% (via PRCC)

Funding

In September 2005, NZOG announced to the stock exchanges the decision to proceed with the Pike River coking coal mine. This followed the introduction of Indian coking coal company Saurashtra Fuels Private Limited as a major new investor into Pike River Coal Company (PRCC).

Saurashtra are acquiring a 10.6% stake in PRCC by investing \$17 million. NZOG and existing minority shareholders in PRCC are committing \$23 million. NZOG's shareholding in PRCC will be approximately 65% after the \$40 million funding is concluded (based on PRCC minority shareholders taking up their entitlements). Remaining mine development costs are intended to be funded by debt and up to \$30 million equity from an IPO.

These arrangements will ensure NZOG retains a majority stake in PRCC during the time the mine is being developed and value is further enhanced. Planning is in progress for an Initial Public Offering ("IPO") by PRCC by March 2006. At this stage a significant portion of any shares offered to the public will be reserved for NZOG shareholders.

Coal Sales

As a substantial trade investor, Saurashtra are seen as a good strategic fit with PRCC. A substantial portion of mine production has now been sold under contract. Saurashtra will purchase at least 150,000 tonnes per annum of Pike coal for the entire mine life, adding to existing preliminary four year sales contacts with two Japanese steel mills for 450,000 tonnes per year. Saurashtra has appointed Dipak Agarawalla as a director to the Board of PRCC.

Management

Further PRCC managerial positions were filled during the quarter with the appointments of two engineering managers and the human resources manager. Recruitment and training of personnel for the mine will commence shortly.

Construction

Preferred contractors for the road, bridge and tunnel construction have been appointed and construction works are expected to commence in the December 2005 quarter. Negotiations on the transport contract continued and announcement of the selected transport route and contractor will be made in the December 2005 quarter.

Tui Oil Area (PEP 38460 NZOG 12.5%)

Development Status

The initial engineering design study for the Tui Area oil development was completed on schedule and within budget in August 2005. This study confirmed that a combined development of the Tui, Amokura and Pateke fields ("Tui Area") is economically attractive, notwithstanding an increase in capital costs. The target date for first oil is the quarter ending March 2007.

The various contracts and other elements supporting the Tui Area oil development are proceeding in a very positive fashion. One major contract, for drilling the four development wells, is firmly in place. Other contracts, including the leasing of an FPSO (Floating Production Storage and Offloading vessel), are either nearly in final form or will be negotiated by the operator in short order. It is expected that all of the ingredients needed for the joint venture parties to "push the button" for Tui will come together within two to three weeks.

The investment budget for the Tui Oil development is now US\$200m and some financial guarantees will also be involved in getting all contracts in place. While the development cost is substantially above last year's initial estimates, the expected initial rates of oil production have also increased and we are now looking at an initial rate of 50,000 barrels/day.

There are increasingly strong views that the oil price will stay around the higher prices of recent times for quite a lot longer than was predicted some months ago. A price of US\$50 per barrel when Tui starts up in early 2007 is now seen as quite possible. One bank, CIBC World Markets, is predicting US\$90 in 2007. Even at US\$40 per barrel NZOG's investment in the Tui development would be recouped in the first 4 months of production.

Reserves and Mining Permit

Tui proven and probable reserves are within the 20-30 million barrel range previously announced. A petroleum mining permit ("PMP") application was lodged in June 2005 with the Ministry of Economic Development for the development of the Tui Area oil fields within PEP38460. The Tui Area is set to be New Zealand's first offshore development solely targeting oil.

Exploration Prospects

Importantly, there is opportunity to add to existing reserves. There are several as yet undrilled oil prospects in the vicinity of the Tui Area oil fields, each of which may contain 10-20 million barrels of oil. Any discoveries here would be tied into the Tui development. While drilling costs have escalated dramatically (up approximately 300% over the past year) the value of the prize makes such increases affordable.

Kupe Gas, Oil and LPG (PML38146 NZOG 15%)

Development Status

The Kupe Joint Venture announced on 28 October 2005, that all onshore regulatory approvals for the Kupe development have been granted by the Taranaki Regional Council and the South Taranaki District Council, and that the final impediments to achieving the offshore consents have been resolved. The Kupe venture will now request granting of the offshore consents from the Minister for the Environment. This concludes one fundamental pre-requisite for the approval of the project. Landholder negotiations continue for various easements.

Tenders were obtained by the operator (Origin Energy) for platform fabrication, offshore installation and drilling during the September 2005 quarter and are being assessed. The detailed design and tendering for the onshore gas production facility with selected international companies also continued and is due for completion in the December 2005 quarter.

Based on the tender responses, and the fact the Kupe joint venture will build its own production station, capital costs for the Kupe development project have increased. The operator's current estimate, subject to completion of contract negotiations, is for the development to cost approximately \$800 million, reflecting extremely tight petroleum and resource industry conditions. Offsetting the higher construction costs to an extent, are higher oil and LPG prices.

EXPLORATION

Tui Area (PEP 38460) 12.5%

Seismic interpretation of the Pateke 3D survey (Tui extension) confirmed the closure over the northern part of the Pateke oil pool. The operator estimates a small increase in reserves for this part of the Tui/Amokura/Pateke discovery.

Hector Prospect (PEP 38483) 19%

Evaluation of the 3D seismic data acquired in April 2005 over the Hector area was completed during the September 2005 quarter.

The PEP 38483 venture parties have signalled their intention to drill the Hector prospect. Importantly a drilling rig slot is available which is something not easily achieved in the very tight rig market that now exists. Hector would be drilled into the Kapuni C sands with the primary target being clearly delineated by the recent 3D seismic. Hector is a structural closure at the Kapuni C sand level and in a similar setting to Tui. The Hector structure has in the order of 50 million barrels potential. If the structure does contain oil, and is filled to "spill point" then the potential prize could be greater than that.

Felix and Opito Area (PEP 38729) 75%

Further seismic data acquisition is planned for next year. Depth conversion studies have shown some uncertainty associated with the Felix and Opito-Updip structural closures which the new seismic survey programme is planned to address.

West Kupe – Taitapa and Gamma Prospects (PEP 38484) 100%

NZOG announced earlier in the year its decision to drill the Taitapa prospect some 21 kilometres from the Kupe central field and 14 kilometres south of the oil discovery made by the Kupe South-5 well in 1990. A major challenge at the moment is to secure a drilling rig and efforts in that regard are continuing. Talks with several potential partners are also continuing and NZOG is confident of bringing other companies into the project ahead of drilling. Taitapa is located in 70 metres of water and could be drilled with a jack-up rig or semi-submersible rig.

NEW ISSUE OF BONUS OPTIONS

The company announced to the stock exchange on the 28 October 2005 that it will make a free bonus issue of listed options to all shareholders (the record date being 18 November 2005). The listed options issued to shareholders (and option holders) in 2002 added significant value for investors and in June this year delivered \$43 million to the company at a very opportune time.

Shareholders will be issued one new option for every two shares held. A prospectus will be mailed out over the next month. These new options will have a term of about 2½ years with a final exercise date of 30 June 2008. The exercise price for the new options will be \$1.50, which reflects directors' minimum value aspirations for the company over the next couple of years.



R A Radford
Executive Chairman
31 October 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 September 2005 have been included in this report.

FOR FURTHER INFORMATION PLEASE CONTACT:

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