



**ACTIVITIES REPORT
FOR THE QUARTER ENDED
31 DECEMBER 2005**

HIGHLIGHTS

- Tui oil fields development underway
- Agreement on Coal export route for Pike coal
- Drilling rig contracted for Kupe development wells
- \$12 million raised from share placement
- Bonus options issue completed

INTRODUCTION

The Tui oilfield development was approved during the December 2005 quarter and all major contracts are in place. NZOG's debt financing arrangements for its share of Tui project costs are well advanced. At Pike River road and bridge construction commenced. A Port Taranaki-led consortium was contracted to provide the transport to the export port. A formal development decision by the Kupe joint venture is now scheduled during the June 2006 quarter. In the meantime a drilling rig was contracted for the development wells and tenders for the onshore production station received by the Kupe project operator.

DEVELOPMENT PROJECTS

Tui Oil Area (PMP 38158 NZOG 12.5%)

On 21 November 2005 NZOG announced the Tui project partners' decision to immediately develop the Tui Area oil fields. The project, located in the offshore portion of the Taranaki Basin, will be New Zealand's first stand-alone offshore oil development.

Petroleum Mining Permit PMP38158 was granted over the Tui oil fields and satellite prospects by the Minister of Energy on 29 November 2005.

Tui Project Outline

The Tui Area oil project comprises development of the Tui, Amokura and Pateke oil accumulations. These adjacent fields were discovered by NZOG and its co-venturers in 2003/2004. The development in water depths of around 120 metres will be undertaken via four horizontally drilled and subsea completed wells each of which will be individually tied back to a leased Floating Production Storage and Offloading vessel ("FPSO"). The capital budget for the development (which excludes the costs of the leased FPSO) is US\$204 million (NZOG's share US\$26 million).

On 18 November 2005 the operator, on behalf of the joint venture, executed a charter contract with Prosafe Production Services Pty Ltd ("Prosafe") for the provision of the FPSO. Prosafe will both build and operate the FPSO. The contract is for a fixed initial term of 5 years which has a contract value of US\$178 million with options exercisable by the Tui joint venture for five one year extensions. Prosafe have built and operate a number of similar FPSOs.

Recoverable oil reserves for the Tui Area oil fields are estimated by the operator to be 26.8 million barrels on a probabilistically derived P50 basis. An independent reserves report subsequently prepared for NZOG by Perth based consultancy firm, RISC, has confirmed this reserves estimate.

The project facilities are designed for a maximum initial oil flow rate of 50,000 barrels of oil per day. Due to the nature of the reservoirs liquids production is expected to remain high but with a relatively rapid rise in water production and associated decline in oil rate. To maximise ultimate oil recovery the FPSO is being designed to handle up to approximately 120,000 barrels per day of liquid. The FPSO oil storage capacity will be in excess of 700,000 barrels, to provide flexibility to efficiently utilise a range of differently sized offtake oil tankers.

The predominant market for the Tui Area oil is expected to be the Asia Pacific region including Australian East Coast refineries. The light sweet Tui Area oil has similar properties to oil produced from similar aged reservoirs at the Maui Field in offshore Taranaki, and this oil is also similar to Bass Strait produced crude that is a major feed-stock to the East Coast Australian refineries.

Due to a rapidly developing shortage of suitable offshore drilling rigs the Tui joint venture signed a contract with Diamond Offshore in May 2005 for the use of the Ocean Patriot semi submersible rig. This ensures that the development wells can be drilled to a timely schedule and at a favourable cost. Drilling of these four wells is to commence in the December 2006 quarter and will take around six months. Drilling is scheduled to tie-in with the FPSO arrival date in the March 2007 quarter, with the first oil target date being the June 2007 quarter. With oil prices recently nudging US\$70 per barrel it looks increasingly likely that oil prices will remain significantly above US\$40 at the time of first oil production in the June 2007 quarter.

Exploration Drilling

The Tui joint venture is committed to drill two exploration wells within the Tui mining permit by November 2007. These wells may be drilled in conjunction with the Tui development drilling program. Success at any of the exploration targets (which includes the Tieke and Taranui prospects) could be monetised relatively quickly by linking additional subsea wells to the Tui FPSO.

Oil Hedging

NZOG intends to hedge a substantial portion of its Tui oil reserves, primarily using option products such as put options, swaptions, and some use of collars to protect the Company's income stream while protecting most upside potential in oil price.

Financing

In addition to the drilling rig and FPSO contracts the joint venture has now executed contracts for all major equipment and services, including wellheads & subsea trees, subsea well control system, subsea flowlines & umbilicals and their installation, and tubulars for the wells.

NZOG is negotiating a US dollar denominated debt facility to finance a substantial portion of the development costs.

PIKE RIVER (MP41453) NZOG 69% (via PRCC)

Transport

A long term transport contract was executed by Pike River Coal Company Limited ("PRCC") on 23 December 2005 for delivery and export of up to 1.3 million tonnes of coal per annum.

Execution of the transport contract resulted from some 12 months of negotiations. The \$80 million supply chain contract was awarded to The West Coast Coal Company ("WCCC") a consortium comprising Port Taranaki Limited, TNL Group Limited, Wendell Group and Jepsens International. The contract is subject to parties completing their financing arrangements.

WCCC will take responsibility for all aspects of handling and freighting coal from the mine stockpile areas to onboard export vessels at Port Taranaki. The coal will be coastally shipped from Port of Greymouth in two small coastal ships, purpose built for the limited water depth that exists there, to Port Taranaki. From there coal will be shipped in Panamax size vessels carrying loads of up to 65,000 tonnes to export markets in Asia, India, South America and Europe. Port Taranaki is currently dredging to deepen all berths to 12.5m, and has resource consents to dredge to 14m which would make it the deepest container port in New Zealand.

Wendell Group and specialised bulk ship owner-operator, Jepsens International, are the coastal shipping providers within WCCC. Design features of the special purpose vessels include capability to transport large cargoes (up to 12,000 tonnes each) at shallow draft, significant manoeuvrability using the ships own propulsion, and high standards for reliability

and safety of operations. The vessels will be constructed in China and each vessel will take approximately 18 months to build and then deliver to New Zealand.

This new transport route represents a major innovation for New Zealand's coal export industry and will open up significant opportunities for future coal trade expansion.

Construction

Work on the access road commenced during December 2005, and is proceeding according to schedule. The first major bridge has been installed and completion of the remaining bridges to provide access for tunnel construction is scheduled for completion by end April 2006. Long lead orders for power supply transformers and other equipment are being placed.

Financing

PRCC is progressing debt financing discussions with a number of international banks and planning is proceeding for PRCC's initial public offering (IPO) at this stage targeted for March/April 2006.

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

Development Status

ENSCO Oceanics International has won the contract to drill three development wells in the Kupe gas and condensate field and bids have been received for the construction of the production station, as momentum builds on the Kupe Gas project.

According to operator, Origin Energy, the drilling program will commence in the first half of 2007 and extend for approximately six months. The ENSCO contract includes options to drill up to three additional wells either on Kupe or elsewhere. The drilling rig, the ENSCO 107, was recently launched and commissioned in Singapore. It will complete three projects in South East Asia, before mobilising to New Zealand in the first quarter of 2007. The award of the drilling contract is a key project milestone for the Kupe project.

Meanwhile, bids for the onshore component – which includes construction of the production station and associated pipelines - have been received and are undergoing evaluation. The operator stated that the level of interest shown in the onshore component from international contractors is very promising. A revised development budget will now be completed.

The Kupe project is on track for the joint venture to make the Final Investment Decision in the first half of 2006. Once approved it is expected that commercial gas and liquids production will commence during 2008.

EXPLORATION

Hector Prospect (PEP38483) 19%; Hector South sub-block 12.5%

Contemporaneous with the awarding of petroleum mining permit PMP 38158 for the Tui Area in November 2005, and as part of that process, the Hector South sub-block was added to PEP 38483, and the balance of PEP 38460 relinquished.

The PEP38483 operator is in discussions with Diamond Offshore on the possible use of one of the Ocean Patriot 'option' slots to drill the Hector prospect. Agreement on the commercial terms is necessary before a commitment to drill can be made.

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 (PEP38729) 75%

Further seismic is currently being acquired over the Felix and Opito-Updip structural closures to enhance definition of those prospects.

West Kupe – Taitapa and Gamma Prospects (PEP38484) 100%

The Company is continuing efforts to secure a drilling rig which, as indicated in the last quarterly report to shareholders, is a major challenge in an overheated international drilling market. Taitapa is located in 70 metres of water and could be drilled with a jack-up rig or semi-submersible rig. Talks with potential partners are in progress.

CORPORATE & ADMINISTRATION

Share Placement

During December 2005, a private placement of 13.3 million shares was made to institutional and other qualifying investors, equal to approximately 6% of the Company's issued shares. The issue at NZ\$0.90 cents per share and including rights to the 1:2 bonus option issue, raised \$12 million to advance NZOG's oil and gas projects.

Pan Pacific Petroleum Shares

During the quarter the Company subscribed for additional shares in Pan Pacific Petroleum NL at a cost of NZ\$3.12 million, taking its holding to 10.1%. The additional investment was made to increase the company's exposure to the Tui oil fields and associated prospects.

Bonus Option Issue

The Company's free 1:2 bonus option issue to shareholders was completed during December 2005 and resulted in the issue of 107,050,236 options. These options have traded in the range 10.6 to 13.8 cents.



R A Radford
Executive Chairman

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 December 2005 have been recorded in this report.

FOR FURTHER INFORMATION PLEASE CONTACT:

Gordon Ward/Tony Radford

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

Website www.nzog.net

Email inquiries should be made to enquiries@nzog.net

NZOG

Taranaki Basin Permits

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