



**ACTIVITIES REPORT  
FOR THE QUARTER ENDED  
31 MARCH 2006**

**HIGHLIGHTS**

- Tieke, Taranui and Hector oil exploration wells to be drilled
- Debt financing completed for Tui oil fields development
- Technip appointed preferred contractor for Kupe onshore production station

**INTRODUCTION**

Substantial progress was achieved with all three key NZOG development projects and a drilling rig was contracted for three offshore exploration wells during the March 2006 quarter. Debt financing for the Tui oil fields development was concluded with a US\$38 million facility secured with the New Zealand branch of Commonwealth Bank of Australia (“CBA”). At Pike River, construction works proceeded and plans advanced to appoint a lead manager for the planned initial public offering (IPO). The Kupe development took another step forwards with appointment of Technip as preferred contractor for the Kupe onshore production station. The formal development decision by the Kupe joint venture is currently scheduled for about 30 June 2006.

**DEVELOPMENT PROJECTS**

**Tui Oil Area (PMP 38158 NZOG 12.5%)**

The Tui oil field development has progressed in line with expectations during the quarter, with a focus on the conversion of the Floating Production Storage and Offtake (“FPSO”) vessel and the contracted supply of the subsea equipment and flow lines. Development drilling and associated exploration drilling within the Tui permit area remains scheduled for commencement in the October to December 2006 period.

A detailed review of the project has commenced under the new operator with a view to optimising the project value. The results of this review should be available in the near future.

***Oil Hedging***

NZOG has executed hedging arrangements over 673,000 barrels of Tui oil production. Under those arrangements a minimum price of US\$50 per barrel will apply and a maximum of US\$86 for 224,000 barrels.

### ***Financing***

NZOG has entered into a US\$38 million financing agreement with CBA to fund the company's share of the Tui development.

Tui is expected to generate a strong cash stream for NZOG once production commences in the first half of next year, with initial flow rates from the fields expected to be around 50,000 barrels a day (NZOG's share 6,250 barrels/day).

### **Pike River (MP41453) NZOG 69% (via Pike River Coal Limited)**

#### ***Construction***

A range of detailed design, construction and procurement activities were completed during the March 2006 quarter at Pike River.

Construction of the 8 kilometre access road to the mine tunnel entrance has been largely completed. Four major bridges have now been installed with the two remaining bridges to be completed during May 2006. Final design of the coal slurry pipeline was completed and 10 kilometres of 11 inch seamless pipeline ordered from Japanese suppliers. Contractor bids for a build-own-operate contract for the coal preparation plant are due during the June 2006 quarter.

#### ***Financing***

Planning is proceeding satisfactorily for the full funding of the Pike River mine development through a mix of debt, and equity to be raised by a public share offer.

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

The formal development decision by the Kupe joint venture is currently scheduled for late in the first half 2006.

During the March 2006 quarter, the operator of the Kupe gas/oil development, on behalf of the Kupe joint venture, awarded 'preferred tenderer' status to Technip Oceania Pty Ltd for construction of the onshore gas production station. The appointment of Technip as preferred tenderer will enable more detailed discussions to take place as required to finalise commercial arrangements. Based in Perth, Western Australia, and Kuala Lumpur Malaysia, Technip Oceania provides engineering and construction management services in the Asia Pacific region.

Meanwhile, the Kupe joint venture parties continue to evaluate bids for the offshore components of the project. The project schedule calls for commercial gas and liquids production to commence during 2008.

## **Extensive Drilling Program**

NZOG announced on 22 March 2006 that it has committed to a drilling programme utilising the Ocean Patriot offshore drilling rig. The drilling programme will commence in the last quarter of 2006 with the Hector oil exploration prospect in PEP 38483.

The Ocean Patriot will then drill the four production wells for the Tui oil fields development during the period to March 2007 before moving to drill two exploration wells, Tieke-1 and Taranui-1, in PMP 38158 in the June 2007 quarter.

The upcoming seven wells will be the largest continuous drilling programme ever undertaken by NZOG. It represents a significant investment in the future growth of NZOG at a time of high oil prices and solid progress with the company's developments.

### **Hector Prospect (PEP38483) 19%**

Hector will be drilled into the Kapuni C sands with the primary target being clearly delineated by 3D (three dimensional) 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.

### **Tieke and Taranui Prospects (PMP 38158) 12.5%**

The Tieke and Taranui wells will be drilled into the Kapuni F sands and the targets have been delineated on 3D seismic.

The Tieke and Taranui prospects have individual potential indicatively in the range 10 to 20 mmbbls recoverable oil. Success at either of these exploration targets could be monetized relatively quickly by linking additional subsea wells by flowlines to the Tui FPSO.

The Tui oil field discoveries and the presence of oil shows in the Pukeko well, some 70 km south of Tui, show that there is wider potential for oil discoveries, by demonstrating that oil has been generated and expelled from source rocks in the area west of the Maui field.

### **Felix and Opito Area (PEP38729) 75%**

The refraction line seismic survey in the onshore region of this permit was completed in February 2006. The results from this survey are being incorporated into a velocity model to constrain the structure and volume of the identified prospects and aid in the design of a transition zone seismic survey, which is required before suitable drilling locations can be identified. The Company is considering an acquisition of an onshore/offshore transition zone seismic survey to tie existing marine and land seismic datasets on the permit.

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

The Company has submitted an application to the Ministry of Economic Development to extend the drilling commitment date, due to lack of availability of drilling rigs. NZOG is

continuing talks with potential partners and pursuing efforts to secure a drilling rig which continues to be a major challenge in an overheated international drilling market. Demand for offshore drilling rigs is anticipated to outpace supply in New Zealand for several years.

## FINANCIAL

During the March 2006 quarter, \$12.6 million was invested in the Company's development projects as follows:

Tui Oil	\$2.5m
Pike River Coal	\$9.2m
Kupe Gas/Oil	\$0.9m

The Company utilized its contractor guarantee facility with CBA, to replace the US\$12.5 (NZ\$18) million cash deposit. Cash held of \$43 million at 31 March 2006, includes cash of \$23 million, held by 69% owned subsidiary Pike River Coal Limited.



**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 March 2006 have been recorded in this report.

**FOR FURTHER INFORMATION PLEASE CONTACT:**

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