



**ACTIVITIES REPORT
FOR THE QUARTER ENDED
30 JUNE 2006**

HIGHLIGHTS

- **Kupe development under way**
- **New major investor in Pike River mine**
- **Tui oil development on schedule**
- **10 well drilling program to commence in December 2006 quarter**

Tui Oil Area (PMP 38158) 12.5%

Tui project design and construction activities continued at a number of locations worldwide during the June 2006 quarter, generally on schedule. Development drilling is still planned to commence in the December 2006 quarter.

Ongoing optimisation of the Tui Area development plan resulted in the joint venture agreeing to a revised reservoir development plan that now includes two production wells in the Tui oil pool and one production well in each leg of the Amokura/Pateke pool. This optimisation increases proven + probable reserves by 1.1 million barrels to 27.9 million barrels (NZOG's share 3.49 million barrels) with timing of first oil production still expected by end of June 2007. Work continues on optimising other elements of the project.

NZOG's US\$37.5m Tui development finance facility with the Commonwealth Bank of Australia was utilised to the extent of US\$10.4m (US\$27.5m) at 30 June 2006, exclusive of US\$8.75m contractor support guarantee (limit US\$12.5m).

Taranaki Exploration Wells

Additional to the Tui development wells, three exploration prospects, all defined by 3D seismic, will be drilled by the Ocean Patriot:

- Tieke and Taranui; both of which are within the Tui Area petroleum mining permit (NZOG 12.5%) and, like Tui, are Kapuni F sands targets (Refer figure 1:Exploration Map 1).
- Hector, in PEP38483 (NZOG 19.0% equity), which is a Kapuni C sands structural closure (Refer figure 2:Exploration Map 2).

The starting date for the seven-well Tui exploration and development drilling program is dependent upon release of the Ocean Patriot from prior commitments with third parties, but expected to commence in the December 2006 quarter.

Pike River (MP 41453) 61% (via Pike River Coal Limited)

Construction of the basic access road from the coal preparation site to the tunnel entrance is now largely complete. Driving of the access tunnel is expected to commence in August 2006. The preferred contractor was appointed for the build-own-operate contract for the coal preparation plant.

On 13 June 2006, Pike River Coal Limited (“PRCL”) introduced a second cornerstone trade investor and secured another major sales contract for Pike coal.

Gujarat NRE Coke Limited (“Gujarat”), which is India’s largest stand alone publicly listed coke-making company, agreed to invest NZ\$20 million for a minority stake in Pike River. Gujarat also contracted to buy 40% of Pike River’s production for the life of the mine, purchasing equal quantities of Pike River’s two hard coking coal products at market prices.

The number of Pike River shares acquired by Gujarat for its \$20 million investment will be matched to the IPO share price, on a basis similar to the \$40 million recently invested by NZOG and Saurashtra Fuels Private Limited. Gujarat’s investment is subject to Overseas Investment Commission consent.

Planning continues to fully fund the Pike River mine development through a mix of equity (to be raised by a public share offer) and project financing.

In May 2006, Mr Denis Wood was appointed to the Pike River board as independent chairman. Mr Wood has had extensive experience in the New Zealand investment banking industry including executive director roles at Ernst & Young Corporate Finance Limited and UBS Warburg.

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

The Kupe project is proceeding to construction following a unanimous final investment decision made by the Kupe joint venture parties on 29 June 2006.

The decision to proceed with the development of the Kupe field was made after considerable efforts on pre-development work, technical design, assessment and consultation. The work included:

- design of a new onshore production station to process gas from offshore;
- community consultation resulting in the obtaining necessary resource consents for the project;
- project reserves (oil, gas and LPG) being increased to 389 petajoules;
- contractor alliance project delivery strategy; and
- final negotiation of a gas supply contract.

The investment decision was based on a development budget of NZ\$980 million (NZOG share NZ\$147 million), which includes a substantial allowance for contingencies such as weather downtime during drilling of production wells. A renegotiated gas supply agreement with Genesis Energy, coupled with higher condensate and LPG prices and the increased reserves announced last year, partially offset increased project costs.

NZOG is presently negotiating bank project funding for the bulk of this investment, which will be outlaid over approximately two and half years. Genesis Energy, which has contracted to purchase the gas under a long-term contract, will also provide NZOG with up to NZ\$20m funding support.

Construction management of the project will be through an “alliance” arrangement with the major contractor, Technip, whereby a single owner/contractor team will manage all major elements of the development, other than drilling of the production wells. This alliance approach is considered the optimal way to achieve the effective and efficient execution of the project. Construction works should be under way by September 2006 and development drilling of three Kupe wells is currently scheduled for the first half of 2007.

Kupe production is expected to commence no later than the first half of 2009, delivering around 20 petajoules per annum of sales gas – approximately 15% of New Zealand’s current annual demand. Of at least equal importance at current oil prices, Kupe will also produce a light oil (condensate) and LPG, commencing at 1.7 million barrels per annum and 90,000 tonnes (761,000 barrels of oil equivalent) per annum, respectively.

Felix and Opito Area (PEP 38729) 75%

The Felix-Opito area is located at the northern end of the Kapuni Group ancient beach sands system which was buried in the Eocene era about 40 million years ago. These beach sands formed highly prolific, proven hydrocarbon reservoirs in the Taranaki Basin, as evidenced by the offshore Maui, Pohukura, and Tui fields.

The results of onshore seismic refraction data recorded by NZOG over the Opito-Felix area in February 2006 support the presence of viable exploration targets. Therefore, NZOG is now embarking upon an onshore/offshore coastal “transition zone” seismic survey, the analysis of which is expected to provide better definition of potential volumes of any hydrocarbons and will result in the identification of a final drilling location (either offshore or onshore). The decision to drill an exploration well into Felix or Opito will be made in early in 2007 following an evaluation of this new seismic data.

West Kupe (PEP 38484)

As reported last quarter, an application had been made for a time extension for drilling in this permit. However, after further consultations with the Ministry of Economic Development, and considering the relatively high risks associated with the Taitapa prospect, particularly in the context of major increases in the cost of a rig, the company has relinquished the permit.

FINANCIAL

During the June 2006 quarter \$34 million was invested in the company's development projects as follows:

	<u>\$m</u>
Tui oil	6
Kupe gas/oil	5
Pike River coal/(via PRCL)	<u>23</u>
	<u>34</u>

Oil hedging undertaken in respect of the Tui financing facility stood at 897,000 barrels, being 25% of NZOG's share of Tui's proven and probable reserves and is made up of a combination of put options at US\$50/barrel and a "zero cost collar" at US\$50 put and US\$87 call per barrel respectively.

Cash held at the end of the quarter was NZ \$39.9 million (including \$11.3 million, held by partly owned subsidiary PRCL). This excludes the \$20 million being invested into PRCL by Gujarat NRE Coke Limited.

R A Radford

Executive Chairman

31 July 2006

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 2006 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

Figure: Exploration Map 1

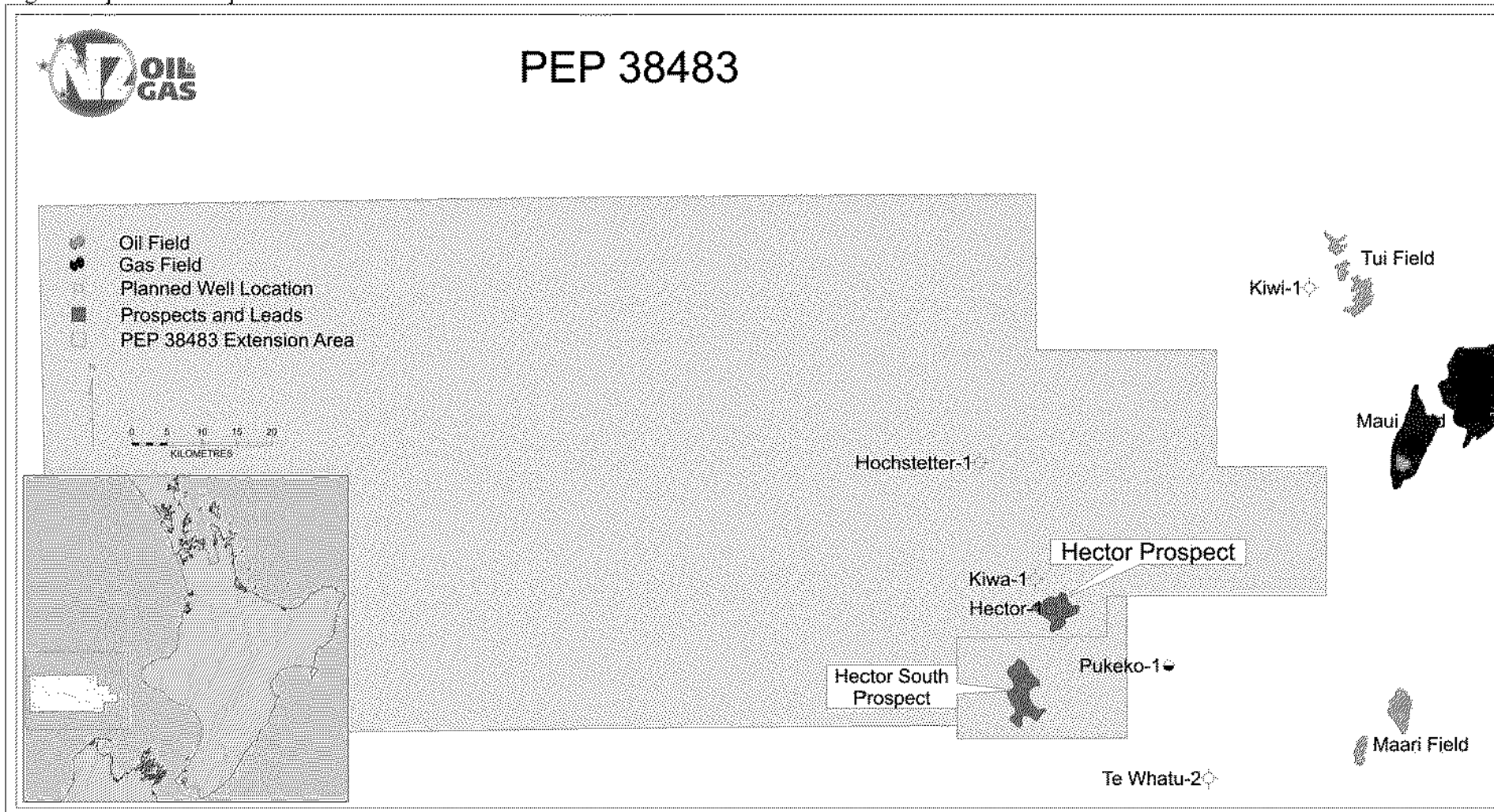


Figure: Exploration Map 2

