



ACTIVITIES REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2006

Highlights

- *10 well drilling program commencing fourth quarter 2006 – three offshore exploration wells and seven development wells*
- *Tui oil development on schedule – drilling of Tieke prospect aims to increase Tui project reserves*
- *Pike River mine development under way- new equity investor provides \$19.4 million and PRCL signs up for \$65 million debt facility*
- *Kupe project management alliance concluded – bank financing proposals being evaluated*

Tui Oil Area (PMP 38158) 12.5%

The Ocean Patriot semi-submersible drilling unit is now in New Zealand waters and will be mobilised to Taranaki for the Tui Joint Venture in about one month, following drilling of a well in the Canterbury basin.

Tui project detailed design was largely completed during the September 2006 quarter and construction is well advanced for all components of the project, including in particular the Floating Production, Storage and Offloading vessel ("FPSO") that is being refurbished by Prosafe in Singapore. The reservoir development plan has also been finalised. NZOG continues to review the operator's proposals to increase the revised Tui construction budget from the presently approved US\$204 million to US\$225 million including contingencies. The development is on target to meet the projected mid 2007 date for first oil production.

Tui Area proven and probable reserves are 27.9 million barrels of which NZOG's share is 3.5 million barrels.

Prior to drilling the wells to access these reserves, the Tui Joint Venture operator has advised the rig schedule may allow a window for the Tieke prospect, which is about 7 kilometres from the proven fields, to be drilled which will maximise the rig availability and co-ordination with subsea installations. Tieke has the potential to deliver up to a further 15 million barrels and a discovery could significantly enhance the Tui Area project. A decision on whether Tieke can be drilled at this time is expected to be made in late November 2006.

At 30 September 2006 NZOG has utilised US\$10 million (NZ\$15.7 million) of its US\$25 million Tui development cash advance facility. The US\$12.5 million letter of credit facility has been drawn to US\$10.75 million at 30 September 2006.

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

Pike Mine Financing

New equity funds of \$19.4 million net were received from coal industry participant Gujarat NRE Coke Limited, in August 2006 following receipt of Overseas Investment Office approval.

As reported in NZOG's recently released 2006 Annual Report, higher steel and fuel costs and a declining NZ dollar caused the Pike River coal mine construction budget to increase to \$144 million, which now includes a \$12 million provision for contingencies. Of that budget, \$40 million had been

expended by 30 September 2006, leaving a balance of \$104 million. There will also be requirements for working capital of approximately \$29 million for the period until full production is reached in the 2009 year.

In order to fund part of this investment, PRCL has mandated a major Australasian bank to arrange a \$65 million project loan, of which \$60 million is to be available for capital expenditures. Provision of this finance facility is subject to final documentation but detailed terms have been agreed and credit approval has been obtained by the bank involved. These funds are to be made available for the later stages of the development project that is expected to see first coal extracted in the last calendar quarter of 2007.

It is intended that the \$80 million to fund the remainder of the mine development costs as well as working capital will be met through new equity and the \$20 million cash held by PRCL at 30 September 2006.

NZOG is fully supportive of Pike River becoming separately listed on the New Zealand and Australian stock exchanges. The optimal timing and method of achieving this listing is still under consideration.

Construction Activities

On 21 September 2006 the first round of explosives was detonated in the rock face at the entry point of the mine access tunnel. The main contractors, McConnell Dowell, mobilised to site during July/August 2006 and are now operating 24 hours per day, 6 days per week to excavate the 4.5 metre high by 5.5 metre wide tunnel, which will incline upwards for 2.3 kilometres to intersect with the Brunner seam coal reserves.

Work is also progressing on other facets of the mine development; the amenities area is being terraced and prepared for the construction of offices, stores and workshops; construction of the electrical substation at the coal preparation plant is well advanced with the first transformer due for delivery in October 2006; all seven bridges and major culverts have been completed on the mine access road from Big River and road surfacing, using rock from the tunnel excavation, has commenced. The last hundred metres of road linking the two sections of road from the public road to the mine tunnel entry, is expected to be completed in the next month.

Pike River also put in place a number of major contracts in the September 2006 quarter including the contract for the supply of a roadheader and two continuous miners to develop the mine's roadways and the contract for the supply of the mine's underground electrical equipment.

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

In September 2006, the Kupe Joint Venture awarded a US\$200 million Alliance contract for the overall development of the project to global construction specialists, Technip. The Alliance arrangement involves Technip and the Kupe operator's executives leading a team resourced from both companies and comprises the design, engineering, procurement, installation, construction, pre-commissioning and commissioning of:

- an unstaffed wellhead platform with capacity for up to 6 wells, plus 3 tie-ins which could be used for future satellite pools,
- a 12" multiphase pipeline to shore and umbilical from the platform to shore,
- a horizontal, directionally drilled shore crossing,
- onshore processing facilities to meet planned production of 70TJ/day,
- an export pipeline for sales quality natural gas, and
- loading bays for LPG and condensate.

The alliance structure, incorporating shared objectives and risk/reward arrangements, is favoured internationally as the optimal way to achieve effective and efficient execution of this type of project.

Detailed design of the production station and construction of the wellhead platform continued during the September 2006 quarter. The projected schedule of construction activities is as follows:

- construction of the production station in the December quarter of 2006;
- installation of the offshore platform set to commence March 2007 quarter;
- installation of 30 km offshore raw gas pipeline December 2007 quarter;
- commencement of development well drilling mid-2007. Ensco International Incorporated has been contracted to drill three development wells using the jack-up rig Ensco107;
- commercial production expected to commence by mid 2009, delivering around 20 petajoules per annum of sales gas – approximately 15% of New Zealand's current annual demand.

The development budget for Kupe, approved by the joint venture partners on 29 June 2006 is \$980 million including contingencies for cost overruns. It remains NZOG's intention to fund the bulk of its \$147 million share of this investment, which will be outlaid over the next two and half years, through bank project finance. Funding proposals from a number of banks have been evaluated to an advanced stage.

Hector Prospects and Hector South Sub-block (PEP 38483)

While it had been expected that the first Hector-1 exploration well could be drilled this year, it has been deferred in favour of giving priority to potentially drilling the Tieke prospect this year within the Tui Area petroleum mining permit. The Hector-1 well is therefore now likely to be drilled after the Tui development wells, which would therefore be around June 2007.

The Hector prospect is a dip-closed structure at the Kapuni-C level (as mapped on the 3D seismic survey of 2005) that has potential recoverable oil of at least 50-60 million barrels.

Felix and Opito Exploration (PEP 38729) 75%

An onshore/offshore coastal 'transition zone' seismic survey was carried out by NZOG in August 2006 to link the existing offshore and onshore seismic data. On completion of processing, this data will be combined with the previous onshore seismic refraction survey recorded in February 2006, to produce high definition maps of the Felix and the Opito subsurface structures and to delineate potential hydrocarbon volumes. The decision as to whether to drill an exploration well on either the Felix or Opito prospects will be made in early 2007 following an evaluation of this more definitive seismic picture.

Cash Position

Cash held at 30 September 2006 was \$37.3 million (including \$20.2 million, held by partly owned subsidiary Pike River Coal Limited).

Corporate

The 2006 Annual Meeting is to be held on Thursday 26 October 2006 at 11am at the Crowne Plaza Hotel, Elliot Rooms, 128 Albert Street, Auckland.

R A Radford

Executive Chairman
16 October 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 September 2006 have been recorded in this report.
3. Except where otherwise stated, dollar amounts are in NZ currency.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Figure: Map 1

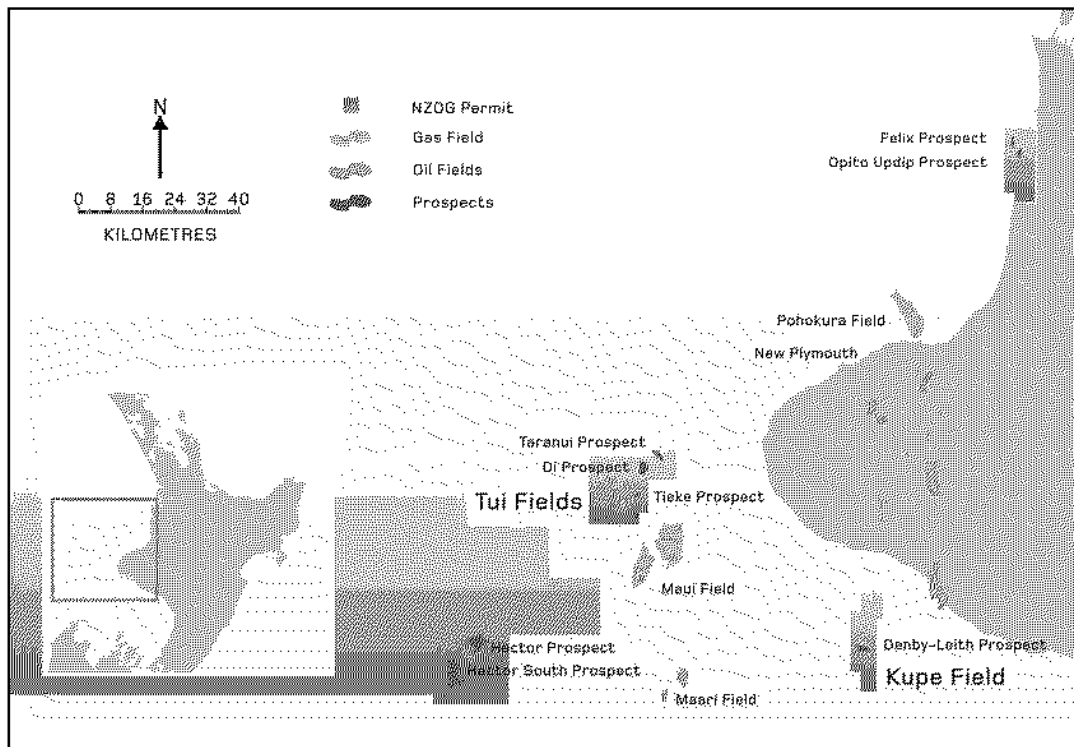


Figure: Map 2

