



NEW ZEALAND OIL & GAS LIMITED

ACTIVITIES REPORT FOR THE QUARTER ENDED 31 DECEMBER 2006

HIGHLIGHTS

- Tui Area drilling of production wells underway
- Pike River tunnel excavation commenced
- Kupe onshore gas plant construction commenced
- Up to four exploration wells planned for 2007
- \$17.5 million raised from share placement, with Rights Issue to shareholders in progress.

TUI OIL AREA (PMP 38158) 12.5%

Development Drilling

On 16 December 2006 the *Ocean Patriot* drilling rig commenced drilling the production wells for the Tui Area Project by spudding the Pateke-3H well. Since then the surface casing has been run and cemented on the Pateke-3H, Tui-2H and Tui-3H production wells.

The Pateke-3H well was cased and temporarily suspended after successfully running and cementing surface casing at a depth of 1,500 metres. Following the installation of the subsea tree, the rig was released from Pateke-3H on December 22, 2006.

The Tui-2H well started drilling on December 23, 2006 and the surface section of the well was drilled to a measured depth of 1,502 metres, where surface casing was successfully run and cemented. The well was temporarily suspended on December 28, 2006 and the rig was released to the Tui-3H location.

As at the end of December 2006 Tui-3H has been drilled to a measured depth of 1,500 metres and preparations made to run the subsea tree after having run and cemented the surface casing. Following completion of these activities at Tui-3H, the well will be temporarily suspended and the rig will be relocated to the adjacent Tui-2H well for the installation of the subsea tree followed by the drilling of the deeper section of the well, including the horizontal reservoir section.

The development drilling programme includes a total of four horizontal wells, each up to 1700m long, to be completed by mid 2007. The four horizontal wells will be capable of producing the combined production target of 50,000 barrels of oil per day.

Construction Activities

Tui construction activities continued worldwide, with good progress achieved on the subsea flowlines in France, mid-water arches in New Zealand and the FPSO in Singapore. The completed equipment is scheduled for arrival in New Zealand from February to April, 2007.

Production will commence following the arrival in April 2007 and completion of commissioning by June 2007 of the Floating Production Storage and Offloading vessel ("FPSO").

Development costs are on-track with the current Tui construction budget of US\$225 million.

PIKE RIVER (MP 41453) (VIA PIKE RIVER COAL LIMITED)

Construction Activities

In September 2006, tunnel excavation commenced at the entry point of the mine access tunnel. McConnell Dowell have advanced 172 metres of the total length of 2300 metres. The drill and blast operation has encountered variable rock conditions resulting in slower than expected progress. At this stage first coal is still on schedule for the December 2007 quarter, however this is dependent on the actual geological conditions encountered.

Access works have seen the completion of seven bridges and five major culverts to enable vehicle access from the public road to the tunnel portal. Road surfacing is progressing using rock from the tunnel excavation.

Other major contracts are well underway with coal mining equipment ordered and pipeline and electrical infrastructure construction well advanced. The design and contract for the coal preparation plant is also currently being finalised. There are now 20 staff employed by PRCL on project managing the contract works and developing for the future operation of the mine.

Public Listing

NZOG advised in November 2006 that a prospectus for the public offer of Pike River Coal Limited (PRCL) securities will be registered in February 2007. NZOG shareholders will receive entitlements to a substantial portion of the float, at a ratio of 1 PRCL security for each 8 NZOG shares held at the relevant date.

Westpac Banking Corporation was mandated in October 2006 to arrange a \$65 million project loan, of which \$60 million will be available for capital expenditures.

Benchmark hard coking coal prices for 2007 have recently been settled by large Australian coal producer BMA at US\$96 per tonne, which compares favourably to PRCL's earlier pricing expectations.

KUPE GAS, OIL AND LPG (PML 38146) 15%

Kupe Financing

In November 2006, the company mandated Westpac Banking Corporation to provide project funding for the majority of NZOG's 15% investment in the Kupe project. Under agreed terms, Westpac will provide a \$125 million term loan facility together with a \$10 million letter of credit facility to support contractor guarantees. These bank facilities are additional to the \$20 million tail gas funding which will be available under gas sale arrangements with Genesis Energy. These financings, together with a further minimum \$25 million contribution by NZOG, will fully fund the company's budgeted share of the Kupe development.

Development Activities

Design works for the Kupe project commenced in earnest during the December 2006 quarter following the award of the Alliance contract to global construction specialists Technip in September 2006.

Construction of the offshore wellhead platform continued in Thailand during this period after design had been completed prior to award of Alliance contract.

In October 2006 initial construction activities commenced at the site of the onshore gas plant at Hawera, while the detailed design of the processing plant continued within the Alliance, which will lead to equipment orders being placed through-out 2007. The horizontally directionally drilled pipeline ("HDD") that connects the offshore pipeline to the gas plant via a short pipeline that runs under the cliff-line will commence construction in early 2007.

The *Ensco 107* jack-up rig will install the wellhead platform in mid-2007, after which the rig will be used to drill the three Kupe production wells that will be capable of producing in excess of the contracted sales gas rate of 20 petajoules per annum.

EXPLORATION ACTIVITIES

Hector Prospect 18.9% and Hector South Sub-block (PEP 38483) 12.5%

The Hector-1 exploration well is now scheduled to be drilled after the Tui development wells in the quarter ending June 2007. The Hector prospect is a dip-closed structure at the Kapuni-C level that has potential recoverable oil of at least 50-60 million barrels. Several look-alike structures in the vicinity of the Hector prospect provide further upside in this permit if the Hector-1 exploration well is successful.

Taranui and Tieke Prospects (PMP 38158) 12.5%

The Taranui prospect is located approximately 15 kilometres northeast of Tui and contains Kapuni F-sand reservoir targets similar to those discovered in the Tui area oil fields. Taranui-1 is scheduled to be drilled following the Tui development wells in the second quarter of 2007.

The *Ocean Patriot* drilled the Tieke-1 exploration well in November 2006, but only encountering minor hydrocarbon shows. The well was suspended to allow the results to be assessed to determine whether a potential sidetrack to a deeper Kapuni sand target is merited.

Felix and Opito Exploration (PEP 38729) 75%

Processing results from the onshore/offshore coastal 'transition zone' seismic survey are currently being assessed by NZOG. The new data will be incorporated into the existing database and ongoing geological studies to delineate the Felix and the Opito subsurface structures and to assess their hydrocarbon potential. A decision whether to drill an exploration well on either the Felix or Opito prospect will be made in first half of 2007 following the completion of technical evaluation.

Momoho Prospect (PML 38146) 15%

The Kupe joint venture is considering using one of the option slots with the *Ensco 107* drilling rig to drill the Momoho prospect. The Momoho prospect which could hold either oil or gas, is located between the Central Field Area currently being developed and the Kupe South 5 oil discovery.

SHARE ISSUES

Following a placement of 17.5 million new shares and 5.83 million June 2008 options to New Zealand-based institutional and other investors, at an issue price of \$1 per share on 15 November 2006 the company announced a 1:10 pro-rata offer of shares and options to all shareholders. The offer is of one new share together with one June 2008 option at a price of NZ\$1.00.

The Closing Date for the rights issue is 19 January 2007. Applications must be received by that date.



Tony Radford
Executive Chairman
31 December 2006

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Notes:

1. References to *NZOG*, and *the company*, are to be read as inclusive of the subsidiary companies within the consolidated NZOG group.
2. Except where otherwise stated, dollar amounts are in NZ currency.