



ACTIVITIES REPORT

FOR THE QUARTER ENDED 31 MARCH 2007

HIGHLIGHTS

- The Tui area oil fields development remains on track for first oil in June 2007.
- The Kupe development remains on schedule for first production in mid-2009.
- The Pike River Coal mine development is progressing well. Intense effort is ongoing to advance the registration of the public offer of securities in PRCL.

From the Chairman

The start of April 2007, witnessed a substantial change for the company with David Salisbury having come on board to take over from me as Chief Executive to lead the company through its next growth phase.

David has returned from Europe where he was based in Austria for three years with OMV Exploration & Production with responsibility for OMV's worldwide business and development activities. The global knowledge and experience which he gained in that role places him in an excellent position to drive NZOG forward.

I am pleased to note that David has now also been appointed to the Board as a director of the company. The change of chief executive occurs at a time when NZOG is poised to become a substantial energy producer and has the ingredients to expand further as it continues the search for oil and gas within New Zealand. I will continue to represent the best interests of NZOG shareholders in my non-executive position of Chairman of the Board.



Tony Radford, Chairman





From the Chief Executive

I am very pleased to be joining NZOG at such an exciting stage in its development. Working in Europe has had many attractions but I'm delighted to be back in New Zealand with my family and to have the opportunity to lead a unique New Zealand company that is investing in the country's energy future.

As you know, NZOG is participating in three very large developments that will be transformational for the company. The combination of strong early cash flows from the Tui oil field, long-term production and cash flows from the Kupe gas/condensate field and the diversity brought to our portfolio by the Pike River coal mine add up to a sound foundation for NZOG's future growth.

We have some attractive exploration prospects which will be drilled this year and we are actively seeking further exploration opportunities.

I look forward with great enthusiasm to working with NZOG's business partners and all its stakeholders as we build NZOG through its next phase.

DEVELOPMENT UPDATES

Tui Area Oil Field (PMP 38158, NZOG interest 12.5%)

The Tui-2H and Tui-3H production wells were successfully drilled and completed for production. At the date of this report Amokura-2H is drilling ahead at 2,700 metres. Following the drilling of Amokura-2H the Ocean Patriot rig will move to the Paleke-3H site to complete the fourth and final development well. The successful completion of the Tui-2H well marked a milestone for NZOG and its joint venture partners as it is the first subsea development well drilled and completed for future production in New Zealand. The Tui-2H well encountered a vertical oil

column in the range of 7 to 20 metres which is slightly above the pre-drill expected range. The well length was increased by 176 metres to 5950 metres due to the extended reservoir encountered. The Tui-3H well encountered a vertical oil column of 6-13 metres which is within the range of expectations. Following drilling of all four production wells a reserves re-assessment will be undertaken.

A further major milestone was reached on Saturday 21 April 2007 with the arrival from Singapore on site in the Tui oilfields area of the

floating, production, storage and offtake vessel (FPSO) Umuroa. All subsea equipment has now arrived in New Zealand and the Rockwater 2 installation vessel has commenced installation of this equipment. First oil is scheduled for June 2007. The cost of the development has risen from US\$225 million to US\$245 million due to actual and projected increases in drilling and completion costs of the four production wells. NZOG's share of the additional cost is US\$2.5 million.

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

The Kupe project remains on schedule to achieve first production by mid 2009. The Ensco 107 drilling rig is scheduled to arrive in New Zealand in September 2007. The ENSCO 107 will install the wellhead platform after which it will be used to drill the 3 Kupe production wells. The horizontally directionally drilled (HDD)

pipeline that connects the offshore pipeline to the onshore production plant and which runs under the cliff line near Hawera, commenced drilling during the quarter. Detailed design work for the onshore gas plant is continuing and construction of the offshore wellhead platform is ongoing in Thailand.

At the date of this report, the Kupe financing arrangements with Westpac Banking Corporation are close to being finalised. These arrangements together with the equity contribution from NZOG will fund NZOG's share of Kupe development costs.

Pike River Coal Mine (MP 41453) (Via Pike River Coal Limited, NZOG interest 54%)

Tunnel progress since early January 2007 shows that rates of advance have improved as expected as the tunnel proceeds further underground, although it remains behind schedule. First coal is now expected in the March 2008 quarter. Advance rates depend on the class of rock being mined and will therefore continue to vary as the tunnel encounters a range of rock conditions. Daily advances are now routinely exceeding the projected rate for the relevant rock class but the rock class has not yet significantly improved. The tunnelling contractor introduced a robotic arm shotcreting machine in January to support the roof more efficiently and improve advance rates.

Borehole testing has confirmed that rock conditions at the Hawera Fault at 2,100 metres substantially improve and therefore further improvement in progress rates is expected. At 23 April 2007 the tunnel had advanced 641 metres of the total 2,300 metres to the coal seam.

Access roads are now substantially complete. Site building has commenced and all other major contracts are on target to support the critical path schedule.

On 1 April 2007, Gordon Ward was appointed as Managing Director of Pike River Coal Limited with the company team presently comprising 21 full time employees.

A prospectus for the public offer of PRCL shares was lodged with the Companies Office and the New Zealand Stock Exchange for review in March 2007 and the regulatory approval process is well advanced. At the date of this report, the bank financing arrangements are being progressed to allow the prospectus to be formally registered. 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, subject to a minimum subscription amount.

FOR FURTHER INFORMATION PLEASE CONTACT:

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Exploration Activities

HECTOR PROSPECT AND HECTOR SOUTH SUB-BLOCK (PEP 38483, NZOG INTERESTS 18.9% AND 12.5% RESPECTIVELY)

The Hector-1 exploration well is now scheduled to be drilled in mid-2007 to test the Hector prospect. This is slightly later than previously planned because the joint venture has given priority to the Tui oil field development to optimise the current drilling campaign. The Hector prospect is at the Kapuni-C sandstone level and has potential recoverable oil assessed by NZOG to be 50-60 million barrels. Several look-alike structures in the vicinity of the Hector prospect, such as the Hector South prospect, provide upside in this permit.

TARANUI PROSPECT (TUI PMP 38158, NZOG INTEREST 12.5%)

The Taranui prospect is located approximately 15 kilometres northeast of the Tui area oil fields and contains Kapuni-F sandstone reservoir targets similar to those discovered in the Tui area oil fields. Taranui-1 is scheduled to be drilled by the Tui joint venture following the Tui production wells and the Hector-1 exploration prospect.

FELIX AND OPITO EXPLORATION (PEP 38729, NZOG INTEREST 75%)

New data from the onshore/offshore transition zone seismic survey is being studied by NZOG. The work is focussing on delineating the Felix prospect and assessing its promising hydrocarbon potential. A decision whether to drill an exploration well on the Felix Prospect will be made later in 2006 following the completion of the technical evaluation.

MOMOHO PROSPECT (KUPE PML 38146, NZOG INTEREST 15%)

The Kupe joint venture is planning to use the Ensco 107 drilling rig to drill the Momoho prospect after it has drilled the Kupe development wells. The Momoho Prospect is located between the Kupe South-4 gas discovery well and the Kupe South-5 oil discovery well and is within 5 km of the Kupe Central Field Area production platform currently being constructed.

Financial

During the quarter ending 31 March 2007, NZOG spent \$32million furthering its three development projects: Tui, Kupe and Pike River Coal. Funding was provided from a combination of debt, cash and a Pike River Coal Limited convertible note issue which raised \$6.5million from new investors. Exploration expenditure for the quarter was \$1million.

FOR INFORMATION ABOUT YOUR SHAREHOLDING OR OPTION HOLDING OR TO CHANGE YOUR ADDRESS PLEASE CONTACT THE SHARE REGISTRARS AS FOLLOWS

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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.