New Zealand Oil & Gas Limited

ACTIVITIES REPORT

FOR THE QUARTER ENDED 30 SEPTEMBER 2007

KEY POINTS

- Oil is flowing from Tui with 2.4 million barrels shipped at the date of this report
- Tui reserves have been significantly increased
- Pike River Coal tunnelling over 60% complete, on target for completion in April 2008
- Hector-1 and Taranui-1 wells had no significant hydrocarbon shows

DEAR INVESTOR

During the last quarter, NZOG has focused on bringing the Tui Area Oil Fields into production and gearing up to expand its exploration portfolio. The achievement of Tui production in July was an important milestone for the company as the revenues this production brings will give NZOG the platform to pursue its growth targets.

NZOG expects to receive over $100 million in revenue from Tui in the 2007/08 financial year, subject to production rates, oil price and exchange rate fluctuations.

In addition, the Kupe development is progressing well and remains on track for first production by mid-2009.

The news is less positive on the exploration front. The Hector and Taranui exploration wells drilled during the period were not successful. However, NZOG remains committed to pursuing attractive exploration opportunities both within its existing acreage portfolio in the Taranaki basin and elsewhere. The recent expansion of the geoscience team enables a wider range of opportunities to be canvassed.

With regard to our 31% stake in Pike River Coal Ltd, PRCL reports that tunnelling continues to make good progress, with first coal production expected in April 2008. Tunnelling costs have increased but there has also been an increase in forecast international coking coal prices.

We strongly believe that the combination of production, development, exploration and investment lays the platform for strong future growth for NZOG. Implementation of the board-approved growth strategy has seen the recruitment of key technical and corporate staff. The first appointments have already joined the team with others coming on board in October/November.

David Salisbury CEO
12 October 2007

ACTIVITY REVIEW

Tui | Umuroa FPSO


Kupe | Drilling rig arrives

Tui Area Oil Field

(PMP 38158, NZOG INTEREST 12.5%)

Tui commenced production on 30 July 2007, utilising the "Umuroa" – a Floating Production, Storage and Offloading vessel (FPSO). The first eight oil shipments, totalling approximately 2.4 million barrels, have been made. NZOG's share of this is around 300,000 barrels. This oil has been sold against the Tapis benchmark crude oil price, adjusted for quality differences and freight costs.

Tui production over the period to 30 September has averaged around 40,000 barrels per day and further minor facilities improvements are being carried out to increase production to the 50,000 barrels per day design capacity. The impact of this production has been significant, not just for NZOG and its Tui partners, but for New Zealand. Monthly trade figures show that in August, New Zealand recorded the highest value of crude oil exports in any month. The Tui production also contributed to a record monthly export total to Australia.

In August 2007 the Tui project operator (AWE) completed a preliminary post-drilling reserves assessment, which indicates that developed proved and probable (2P) reserves for the Tui area oil fields are 32.0 million barrels. This is an increase of approximately 15 % on the pre-drilling reserves assessment. In addition, potential for further undeveloped reserves has been identified. The project operator is undertaking a more comprehensive study which will include evaluation of the economic potential of the undeveloped reserves. Results of this analysis are expected by the end of the year.

Kupe Gas, Oil and LPG Field

(PML 38146, NZOG INTEREST 15%)

In early October the ENSCO 107 drilling rig arrived in New Zealand from Singapore. It will be used to drill the Kupe development wells and install the offshore platform. The platform jacket (essentially the 'legs' of the offshore platform) has also arrived in New Zealand.

The onshore gas plant earth works are largely complete and the civil works are progressing well. The Kupe project remains on schedule for first production by mid-2009.

Funding for the Kupe development of around $50 million to date has been met through equity contributions from our general sources of funding. The remaining development costs will be funded through debt facilities with Westpac Bank.

Pike River Coal Limited

(NZOG INTEREST 31% OF ORDINARY SHARES)

PRCL is a separately listed company, in which NZOG holds a stake of 62 million shares, 11 million options and 3.5 million convertible notes.

The Pike River mine is poised to benefit from an expected jump in hard coking coal prices. Market observers are expecting hard coking coal prices next year to settle at around US$115 per tonne, compared to the Pike River initial public offer (IPO) prospectus forecast of US$96 per tonne. Indications are that longer term coking coal prices will also lift due to ongoing strong international demand.

In September, PRCL advised that the mine development budget was increasing by $11 million to $185 million. The budget increase relates mainly to higher tunnelling costs with nearly all other development costs currently being on or under budget.

The tunnel is over 60% complete and is expected to intersect first coal by the end of April 2008.

Exploration

HECTOR PROSPECT
(PEP 38483, NZOG INTERESTS 18.9%)

In July the Hector-1 well was drilled. Despite detailed pre-drill analysis suggesting a healthy geological chance of success, no significant hydrocarbon shows were seen. The well results are currently being thoroughly evaluated to give us a better understanding of the geological history of this sector of the Taranaki basin. The Hector-1 well itself has been plugged and abandoned.

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

In mid-August, the Taranui-1 well was drilled. This well is located approximately 15 km north-east of the Tui area oil fields. Only minor oil shows were encountered and the well was plugged and abandoned.

A comprehensive suite of wireline logs was successfully completed, including pressure testing and fluid sampling of both the Kapuni F and D Sands. A small volume of oil was recovered from the Kapuni D sands during this sampling programme. The data is still being reviewed, but initial indications are that these zones will not be commercially significant.

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

The Kupe joint venture is planning to drill the Momoho prospect in mid-2008 following the completion of drilling the three Kupe development wells. This prospect lies 5 km from the intended location for the Kupe Central Field (KCF) production platform, which could allow for any production to be routed through these facilities. The Momoho well will be targeting the same Farewell formation sandstone reservoir interval as found in the KCF area.

FELIX PROSPECT
(PEP 38729, NZOG INTEREST 75%)

NZOG has elected to relinquish its interest in PEP 38729 which contains the Felix prospect. At 75% interest, we do not consider drilling of the Felix prospect to be a good investment for NZOG and we have been unsuccessful in attracting further partners into the permit on sufficiently attractive terms.

TOKE PERMIT
(PEP 38499, NZOG INTEREST 12.5%)

Together with our Tui area partners, we were awarded a new offshore exploration permit (located immediately south of the Tui permit), PEP 38499 in May 2007. The permit operator (AWE) is assessing new seismic data that was gathered in July with the aim of detailing and firming up further drillable exploration prospects.

Financial Update

During the September quarter the company began receiving revenue from the Tui Oil production that commenced at the end of July. US$7.5 million was received by 30 September. The oil sales contracts have deferred payment terms, so that the cash is received later than the revenue accrued to date. Remaining Tui development costs of approximately US$3.5 million were paid during the quarter.

NZOG invested a further NZ$20.7 million in the Kupe project development during the quarter.

Approximately NZ$4.7 million was spent on exploration for the quarter, most of which related to the unsuccessful Hector well, which has been written off. NZOG drew down a further $5 million of a short term cash advance facility in order to provide cash flow support through this period.

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NZOG Debt Funding

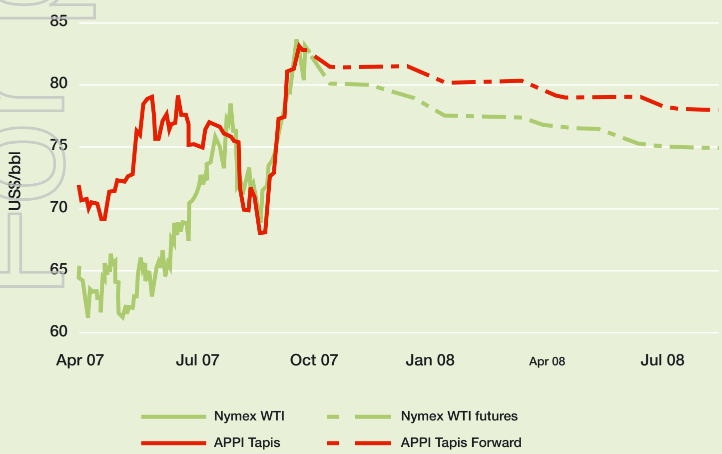
NZOG has fully drawn on a US$27.5 million loan to fund most of its share of development costs for Tui. Repayment of this facility will follow the terms of the loan and is expected to be completed by this time next year.

NZOG has a NZ$125 million base loan facility with Westpac Bank to fund its share of remaining Kupe development costs. Up to end-September we have met all Kupe development costs from general sources of funds. In early October we had our first borrowing under the Westpac Bank loan. In addition, we have a short term working capital facility in place with CBA which we expect to repay in the quarter ending 31 March 2008.

NZOG is committed to supporting the development of Pike River Coal. This may require us to provide further financial support to PRCL on commercial arms-length terms, although as yet this has not been requested by PRCL and it is uncertain whether or not this will in fact be required.

With loans in place and Tui generating significant cash flows, we have no current plans to raise further debt or equity. Consequently, the current uncertainties in the financial markets are not expected to have any direct effect on NZOG.

Crude Oil Prices



Climate Change

In September the Government outlined plans for an emissions trading scheme as part of a suite of policies addressing climate change. The cap and trade scheme will be phased in from next year and include all sectors and greenhouse gases over time. Liquid fossil fuels enter the scheme on 1 January 2009, with coal and gas entering from 1 January 2010.

Fuels that are exported are not covered by the scheme, but any venting and flaring of gas during oil production or exploration testing will be included. For gas supplied into the New Zealand market, the point of obligation is still to be finalised. It could lie with upstream suppliers, or a combination of upstream suppliers and major energy users.

Associate Energy Minister Harry Duynhoven has reiterated the Government's commitment to encouraging more oil and gas exploration in New Zealand. Further consultation on the details of the emission trading scheme is underway and NZOG is actively participating in this consultation process and is carefully evaluating any implications of the emissions trading scheme for the business.

What's Coming Up:

- ANNUAL MEETING
  26 OCTOBER 2007

NZOG stock symbols

NZX SHARES – NZO, OPTIONS - NZOOD

ASX SHARES – NZO, OPTIONS – NZOO