

ACTIVITIES REPORT

FOR THE QUARTER ENDED 31 DECEMBER 2007

KEY POINTS

- **The Tui success story:**
 - 6.4 million barrels of oil produced in 5 months
 - NZOG net revenues approx \$84.2 million after 5 months production
 - reserves upgraded by almost 50%
- **Kupe offshore platform installed, pipeline installation and drilling of production wells underway**
- **Pike River Coal announced a \$60 million rights issue of which NZOG is underwriting its \$17.5 million share**

DEAR INVESTOR

The last quarter of 2007 was a very successful period for NZOG. The Tui Area Oil Fields provided \$61.5 million cash flow for the company. From mid-November, Tui production averaged just under the design capacity of 50,000 barrels of oil a day, coinciding with near record international oil prices. By the end of December, Tui had produced almost 6.4 million barrels since production began on 30 July – NZOG's share being 800,000 barrels. Total revenue for the 5 month period was approximately \$84.2 million.

In November, the Tui operator (AWE) announced a reserves upgrade to 41.7 million barrels – almost 50% higher than pre-development estimates. In simple terms, the field is much bigger than expected.

A very disappointing event was a discharge of oil-contaminated water from the Floating Production Storage and Offloading vessel (FPSO), Umuroa. A small amount of degraded oil was washed up along a section of the Taranaki coast. The Tui operator cooperated fully with authorities and immediate measures were taken to guard against any repeat of the incident.

The Kupe Project made significant progress during the quarter. The production platform was installed 30 km off the Taranaki coast;

drilling of the three development wells began and the off-shore pipeline was completed ready for installation, which began in January.

Kupe continues to experience cost and schedule pressures. This is inevitable given the level of industry activity worldwide and competition for scarce resources and skills. However, the project has been significantly de-risked in recent months and higher oil and LPG prices are expected to more than offset the impact of increased capital costs. While Kupe is often referred to as a gas field, we expect over half the revenues to come from liquids (condensate and LPG) produced with the gas.

Pike River Coal Limited moved to finalise its funding by announcing a fully underwritten rights issue to raise \$60 million. NZOG is underwriting its share of the rights issue as a 31% shareholder. PRC also announced new and more favourable transport arrangements, which will see the coking coal taken by rail to Port Lyttelton. At the end of the quarter the mine was 84% complete.

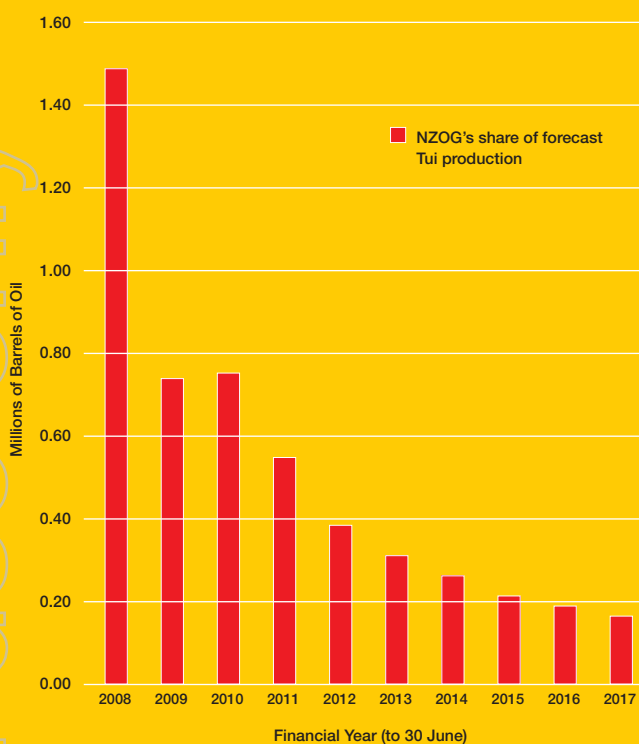
In 2007 NZOG was the 6th best performing stock in the NZX Top 50. Strong revenues from Tui, along with significant progress with Kupe and Pike, sets NZOG up for a very successful 2008.



David Salisbury CEO
24 January 2008

ACTIVITY REVIEW

Tui Production Forecast - NZOG's 12.5% share (approx 5.2 mmbo)



Tui Production Forecast

Tui Area Oil Field

(PMP 38158, NZOG INTEREST 12.5%)

Production up, oil prices up, reserves up – most things were working in NZOG's favour in the period under review.

During the quarter a further 3.4 million barrels of oil (mmbbls) were shipped, taking total shipments to almost 5.9 mmbbls (with another half million barrels in storage). The shipments have gone to refineries in Australia and south-east Asia, generally sold against the Tapis benchmark crude oil price. (See the oil price chart on the back page.)

For the quarter, production averaged 43,000 barrels a day, but from mid-November following the completion of modifications to debottleneck the Umuroa, the daily average was over 48,000 barrels.

In November, the Tui operator (AWE) completed a post-drilling field assessment and upgraded the proved and probable (2P) reserves to 41.7 mmbbls. This compares with the pre-drilling estimate of 27.9 mmbbls and a preliminary reassessment in August 2007 of 32 mmbbls. Most of the increased reserves will come from the existing wells, with one new well required, which the Joint Venture anticipates drilling in 2009.

The amount of water produced with the oil continues to be less than forecast. The increased reserves and lower water cut means that production for the 2008 financial year is now expected to exceed 11 mmbbls.

NZOG was extremely disappointed by the discharge of oil contaminated water in October. As the New Zealand-based participant in the Joint Venture, NZOG will continue to demand the highest environmental performance from the Operator and its contractors.

Kupe Gas, Condensate and LPG Field

(PML 38146, NZOG INTEREST 15%)

Important milestones were reached during the quarter. The Ensco-107 drilling rig installed the production platform at the Kupe Central Field, before beginning batch drilling of the three Kupe development wells. The 30km of offshore pipeline was welded together at a base in Picton, ahead of being laid on the sea bed. The specialist vessel Apache arrived in early January to begin laying the pipeline and umbilical (which supplies power and chemicals to the platform).

The remaining work scope includes completion of the production wells and the on-shore processing facilities. The drilling will provide new information that will allow reassessment of the Kupe reserves later this year.

Worldwide the industry continues to face cost and schedule pressures and the Kupe Joint Venture is completing a detailed reforecasting exercise. However, at the same time expected revenues have increased substantially since the project was sanctioned in June 2006. NZOG calculates that well over half the value of the field lies in the liquids – the condensate and LPG – and the economics of the project have improved based on higher forecast liquids prices.

Pike River Coal Limited

(NZOG INTEREST 31% OF ORDINARY SHARES)

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

In November, PRC announced an 18 year agreement to transport its premium hard coking coal by rail to Lyttelton, significantly de-risking the project.

The tunnelling progress is slightly behind schedule. At the end of December, 1934 metres of the 2300 metre tunnel had been excavated.

Higher coking coal prices are expected to more than offset the impact of increased capital costs with market projections for 2008 in the range of US\$130 to US\$150 per tonne, compared to US\$101 per tonne in the IPO prospectus issued in May 2007.

In January, PRC announced a \$60 million rights issue to shareholders and optionholders and a US\$30 million convertible bond facility to Liberty Harbor. NZOG supports this move to secure funding for the mine and is underwriting its \$17.5 million share of the rights issue.



Ensco-107 drilling rig installing the Kupe production platform

Financial Update

The December quarter was an outstanding period for NZOG, with operating revenue easily exceeding any other three month period in the company's history.

In the preceding September quarter, cash payments of approximately \$10 million (US\$7.5 million) had been received from the early Tui oil shipments. By the end of December another \$51.5 million (US\$39.5 million) in cash had been received. Payments outstanding on December shipments take NZOG's total net revenue* from five months production to approximately \$84.2 million. In addition, on 31 December there were approximately 590,000 barrels (NZOG share 74,000 barrels) of oil in store which was off-loaded in early January. (Confirmed revenue figures will be available in the 2007/08 Interim Report.)

Tui shipments during the quarter benefited from near record international oil prices, taking the average net price received per barrel since the start of production to just under US\$89.

During the quarter we invested a further \$27 million in the Kupe development, all of which is funded via the Westpac facility. We also repaid US\$6m of the CBA borrowings in relation to the Tui facility. NZOG's cash balance at 31 December 2007 was \$60 million. This allows NZOG to manage near term cash commitments, including underwriting the PRC rights issue and debt, tax, exploration and development obligations, as well as provide a platform for ongoing business development.

* Revenue net of price adjustments for freight and quality differentials.

INTERIM REPORT

NZOG advises the market it is taking advantage of the class waiver, granted under the NZX Regulation Decision dated 3 November 2005 to all NZSX Issuers who are first time adopters of NZ IFRS, with reference to NZX Listing Rules 10.4.1(a) Preliminary Announcements and 10.5.2 Half Yearly Report.

This means that NZOG's Preliminary Announcement and Interim Report for the six months ended 31 December 2007 will be released in March and April respectively.

Share registrars contact

For information about your share holding or option holding, or to change your address, please contact the share registrars as follows:

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Exploration

PERMIT PMP38158 (TUI) (NZOG INTEREST 12.5%)

The 3D marine seismic data set is being remapped to incorporate the results from the 2006-2007 Tui drilling campaign. The remapping of the entire permit is expected to better define leads such as Oi and Kahu. Drill-mature prospects could be targeted in a potential 2009 drilling campaign. Any future discoveries could be tied-back directly to the FPSO vessel Umuroa, which is processing oil from the Tui fields.

PERMIT PML38146 (KUPE) (NZOG INTEREST 15%)

NZOG and its Kupe joint venture partners plan to drill the Momoho prospect after the Kupe development drilling is completed in the second quarter of this year. Two wells are being considered; Momoho-1 and a sidetrack to test both the east and west compartments of the Momoho structure, which are separated by a fault. A discovery of additional gas reserves at the Momoho location could be developed via the Kupe facilities, including the offshore platform and pipeline to the onshore processing facility.

PERMIT PEP38499 (NZOG INTEREST 12.5%)

NZOG and its Tui area partners acquired offshore permit PEP38499 in mid 2007. It lies to the south of the producing Tui fields and west of the producing Maui field. The permit contains numerous leads including Toke, Matuku and Kakapo. A 2D Marine seismic survey was shot in June/July 2007 and is currently being processed. The mapping is expected to be completed by mid-year and should further delineate and define these leads. Drill-mature prospects could be drilled in a potential 2009 drilling campaign. The targets for this area are oil fields which could be developed using a FPSO similar to that used for the Tui fields.

PERMIT PEP38483 (NZOG INTEREST 18.9%)

Following the unsuccessful drilling of Hector-1 in 2007, NZOG is remodelling and reviewing other prospects and leads in this permit area.

TARANAKI ON-SHORE PERMIT ROUND

In December 2007, the Government opened an Onshore Taranaki Basin Blocks offer. Nine petroleum blocks are being offered and represent a total area of approximately 3,273 square kilometres. NZOG is carefully reviewing the available acreage. The bidding round will close on 30 May 2008.

NZOG stock symbols

NZX SHARES – NZO, OPTIONS – NZOOD

ASX SHARES – NZO, OPTIONS – NZOO

FOR FURTHER INFORMATION PLEASE CONTACT:

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This report has been printed on FSC certified paper.

Fully Resourced for Growth

Introducing the NZOG team - all 17 of us!

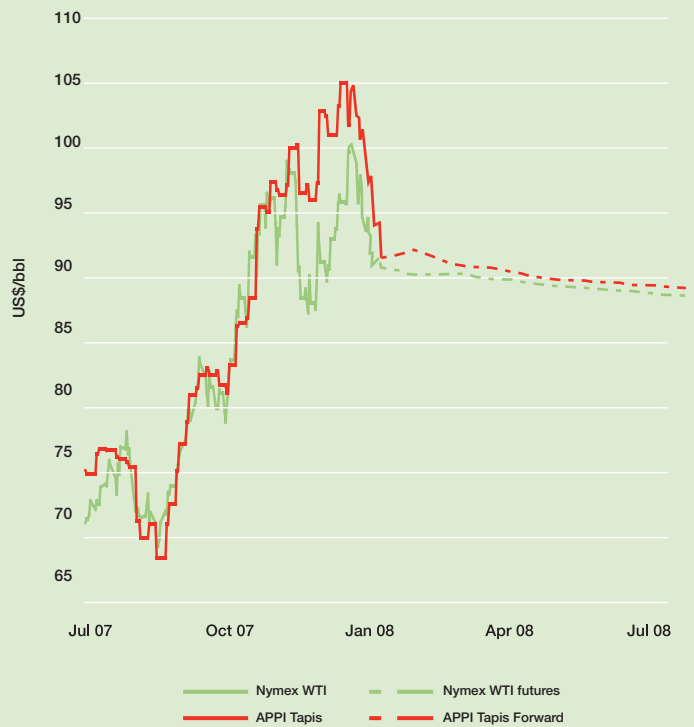
This is the team that has been put together to manage the existing business, pursue the board-approved growth strategy, and deliver ongoing value to shareholders.

It includes a six-strong technical team that has over 100 years combined experience, and highly capable corporate and support staff. While the team remains small and we have no plans to increase it further for the moment, we have been fortunate in a tight labour market to attract and retain senior personnel with an excellent range and depth of skills.

Appointments during the quarter included: Reservoir Engineering Manager Markus Schuh (ex-Shell); Geoscience Co-ordinator Mark Wallis (ex-Shell Houston); Commercial Manager Brent Alderton (ex-Deloittes); Legal Counsel Sam Hill (ex-Izard Weston) and Public Affairs Manager Chris Roberts (ex-Transpower).

A new director was also appointed to the Board during the quarter. Andrew Knight is a General Manager for network infrastructure company, Vector. Andrew has strong commercial and professional credentials, with experience in the management of diversified energy businesses and corporate merger and acquisition processes.

Crude Oil Prices



What's Coming Up:

- PRELIMINARY ANNOUNCEMENT **MARCH 2008**
- INTERIM REPORT **APRIL 2008**