

ACTIVITIES REPORT

FOR THE QUARTER ENDED 30 JUNE 2007

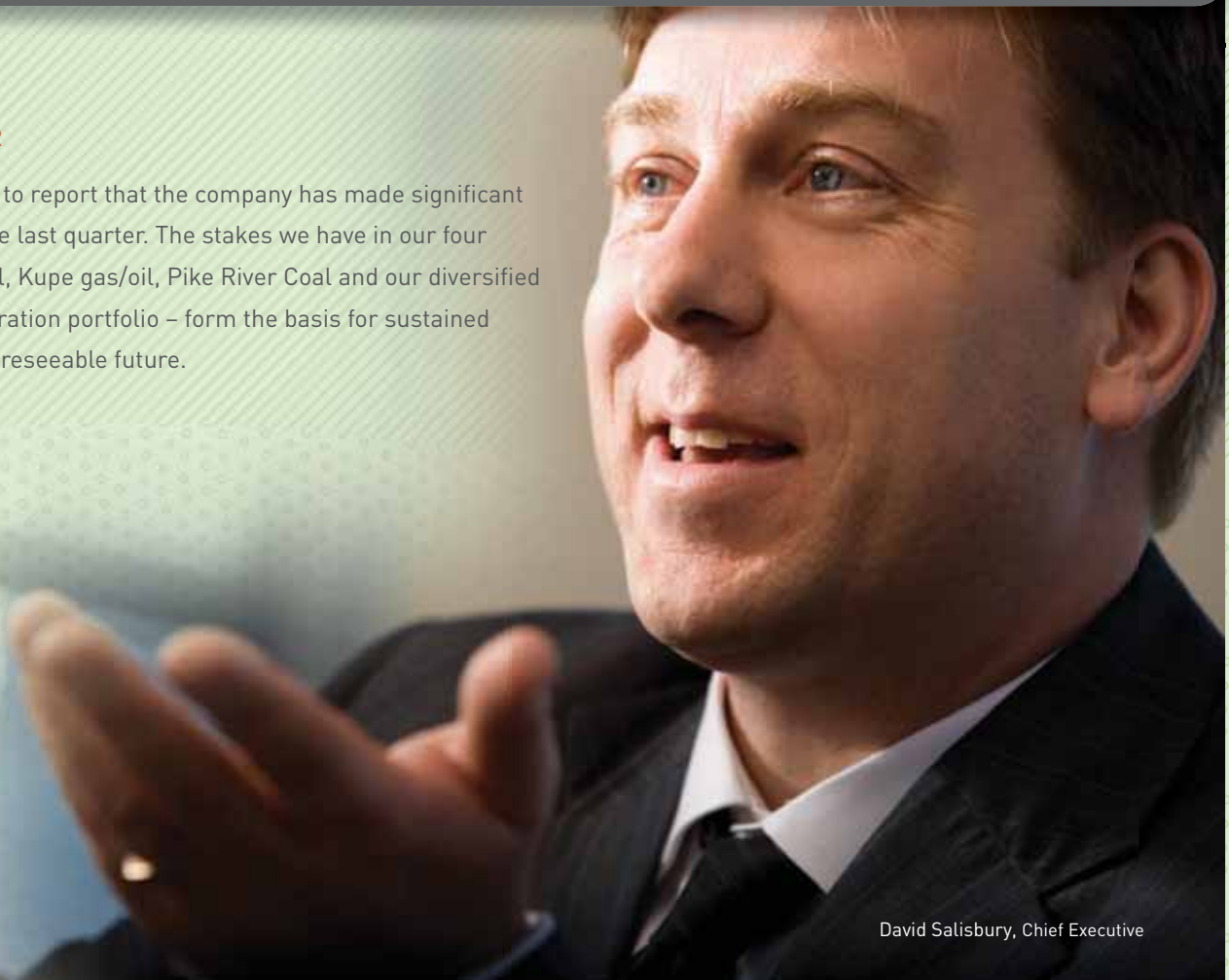
HIGHLIGHTS

- Successful initial public offer (IPO) of shares in Pike River Coal Limited (Pike River).
- Oil from Tui is now imminent at the date of this report. The first three shipments have already been sold.
- The Board approved a growth strategy to drive the business for the next five years and key technical and commercial personnel recruitments are underway.
- We were awarded a new offshore exploration permit, PEP38499, together with our Tui Area partners.
- Drilling of the Hector prospect in offshore Taranaki is expected to start before the end of July 2007.

REPORT TO INVESTORS

DEAR INVESTOR

It's our pleasure to report that the company has made significant progress over the last quarter. The stakes we have in our four ventures – Tui oil, Kupe gas/oil, Pike River Coal and our diversified petroleum exploration portfolio – form the basis for sustained growth for the foreseeable future.



David Salisbury, Chief Executive

ACTIVITY REVIEW



Tui | Umuroa FPSO



Kupe | Onshore gas plant earthworks



Pike River | Tunnel progress continues



Exploration | Ocean Patriot drilling rig

Tui Area Oil Field

(PMP 38158, NZOG INTEREST 12.5%)

Oil from Tui is now imminent and the first 3 shipments have already been sold to buyers in Australia. This oil has been sold against the Tapis benchmark crude oil price, although the actual price will differ from the Tapis nominal rate because of quality differences and freight costs.

First oil production was delayed as a result of operational issues and weather downtime. Operator (AWE) estimates that these delays have seen the cost of the development rising to USD269 million. Our share of this will add a further USD3 million of costs to the forecast given in the March 2007 Activities Report.

All four Tui production wells have been completed and a reserves re-assessment will now be undertaken by AWE.

Kupe Gas, Oil and LPG Field

(PML 38146, NZOG INTEREST 15%)

The Kupe project remains on schedule for first production by mid-2009. The Ensco 107 drilling rig will be used to drill the Kupe development wells and install the wellhead platform. It is scheduled to arrive in New Zealand in September 2007. Production station site earthworks and civil works, the offshore platform jacket, topsides and the offshore pipeline are all making good progress. The jacket is scheduled to arrive in New Zealand in mid-August.

The increased level of offshore and onshore activity means we will see a large proportion of the Kupe development costs incurred over the next year in line with previous expectations.

Cost and schedule forecasts were updated by Kupe operator (Origin Energy) during the quarter. Origin Energy has advised with continuing high worldwide petroleum development activity levels the project has experienced cost pressures which they expect will increase the project cost by around ten percent.

Pike River Coal Limited

(NZOG INTEREST 31% OF ORDINARY SHARES)

The IPO of shares in Pike River, of which NZOG was promoter, raised \$85 million to continue development of the coking coal mine. Pike River is now a separate listed company, in which NZOG holds a stake of 62 million shares, 11 million options and 3.5 million convertible notes.

In line with its earlier letter of comfort, to support the listing of Pike River and to ensure that Pike River has sufficient working capital beyond January 2008 up to completion of the mine development, NZOG has agreed that after 1 January 2008, Pike River may request it to provide equity funding or other financial support of up to \$25 million to Pike River on usual and reasonable arms' length terms and conditions to be agreed.

Tunnel construction passed the 1000m mark during the quarter and will soon be at the half way mark of 1150m, being 1063m at the date of this report. A \$20 million contract for the construction of the coal preparation plant has been signed with Brightwater PEAT Limited. Power has been energised to site and on-site buildings and amenities will be ready to occupy in mid August.

Exploration

HECTOR PROSPECT AND HECTOR SOUTH SUB-BLOCK (PEP38483, NZOG INTERESTS 18.9% AND 12.5% RESPECTIVELY)

Drilling of the Hector-1 exploration well is scheduled to commence by the end of July 2007. We assess the Hector prospect to have potential recoverable oil of 60 million barrels. Several look-alike structures in the vicinity of the Hector prospect, such as the Hector South prospect, give us further upside within this permit. The Hector-1 exploration well is planned to reach the target Kapuni-C sandstone in mid-August. This is the same reservoir target as in the adjacent Maui field which has been New Zealand's most prolific oil and gas field.

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

The Taranui prospect is located approximately 15 km north-east of the Tui Area oil fields. It contains similar reservoir targets to those discovered in the Tui Area oil fields. The Taranui-1 exploration well is scheduled to be drilled after the Hector-1 exploration well. We assess this prospect to have potential recoverable oil of 15 million barrels. A discovery at this prospect could be tied back to the Tui Area FPSO to bring it into production quickly.

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

The Kupe joint venture is planning to drill the Momoho prospect around March 2008 after the Kupe development wells. This prospect lies between the Kupe South-4 gas

discovery well and the Kupe South-5 oil discovery well. It is 5km away from where the Kupe Central Field production platform will be located which, if successful, could allow production through the Kupe Central Field facilities. The Momoho well will be targeting the same Farewell formation sandstone reservoir interval as found in the nearby Kupe Central Field Area.

FELIX PROSPECT (PEP38729, NZOG INTEREST 75%)

We have completed our technical evaluation of the Felix prospect and consider it to be a commercially attractive exploration target. We are now looking for partners to participate in the drilling of this prospect. In addition, we are reviewing options for a drilling rig that can drill this well during the remaining permit term. The Felix prospect lies 1km offshore in the Mangahewa/Kapuni coastal sand paleo-depositional fairway in which the Pohokura gas field also lies.

TOKE PERMIT (PEP 38499, NZOG INTEREST 12.5%)

Together with our Tui area partners, we were awarded a new offshore exploration permit, PEP38499 in May 2007. Exploration work has already begun on the permit with the Toke marine seismic survey under way to delineate the Matuku and Toke leads to mature them into drillable prospects.

Financial Update

During the June quarter, the company invested a further \$30.3 million on exploration and development activities. Funding for this was provided through a combination of cash, pre-existing debt facilities, a short-term Revolving Credit Facility with Commonwealth Bank of Australia and the sale of NZOG's interest in Pan Pacific Petroleum NL. The sale of our interest in Pan Pacific Petroleum NL realised \$12.5 million net proceeds, giving us a profit over book value of \$8 million.

NZOG advanced \$16.3 million debt to Pike River on commercial arms-length terms during the quarter. This was repaid in July 2007.

NZOG stock symbols:

NZX Shares – NZO, Options – NZOOD

ASX Shares – NZO, Options – NZOO

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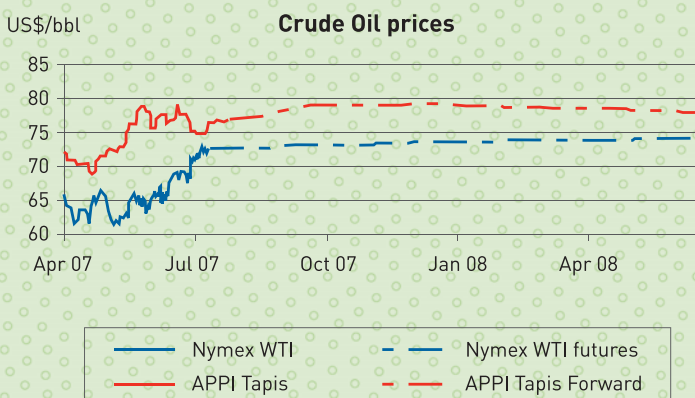
Oil Market Overview

Global demand for oil continues to increase. The International Energy Agency's June 2007 forecast is for world requirements to increase by 2% or 1.7 million barrels/day in 2007, with much of that growth coming from high profile economies such as China and India. There is also continuing strong demand from other regions, including North America, Latin America, Middle East and Former Soviet Union.

Global oil supply is tight. While there may appear to be spare oil production capacity globally, much of this is thought to be in heavy sour crude oils, which are not as marketable to refineries as lighter sweeter crude oils, such as WTI and Tapis. The end result is much less spare capacity and therefore a tight market for higher quality crude oils. This situation makes the market very sensitive to any supply disruptions, such as the shut-in of Nigerian crude oil, northern hemisphere summer storms, geopolitical concerns and maintenance down-time of production facilities. Considerable uncertainty also surrounds the willingness and capability of OPEC to increase supplies of crude oil and reduce prices.

This has meant that over the past quarter, prices for WTI and Tapis based crude oils have risen dramatically. In fact, over the past quarter, Tapis has moved from USD72 per barrel to USD77 per barrel at the date of this report. This trend shows no sign of slowing down, with the APPI Tapis forward curve currently hovering around USD78 per barrel for the remainder of 2007 and 2008.

Our Tui crude oil has been sold against the Tapis benchmark crude oil price, which means that we stand to benefit significantly from this tightening market and price escalation.



Mixed messages from NZD

The NZ dollar exchange rate has a significant influence on our revenues and costs. Over the past quarter, the NZ dollar has appreciated significantly against major currencies. Of these, the most significant are the NZD:USD exchange rate and the NZD:AUD exchange rate. The NZD:USD exchange rate has climbed from 0.72 at the start of April to around 0.80 at the date of this report.

The current high value of the NZ dollar reduces our NZ dollar revenue because our revenues are principally US dollar based. However, it also reduces our costs for activities that are paid for in US and Australian dollars, such as exploration and development project costs and US dollar debt service costs.

A large proportion of costs for the Kupe development, for example, are US dollar and Australian dollar based (around 40% and 30% respectively based on current exchange rates). A proportion of our US dollar revenues will also be used to meet debt repayment and interest costs on the USD40 million Tui debt facility.

Essentially, this means that while we are developing the Kupe field and repaying the Tui debt facility, the impact of the high NZ dollar on revenue is being largely offset by US dollar and Australian dollar project costs and debt service requirements.

David Salisbury Chief Executive

24 July 2007

What's Coming Up:

- ANNUAL REPORT
SEPTEMBER 2007
- SEPTEMBER QUARTER UPDATE
OCTOBER 2007
- ANNUAL MEETING
OCTOBER 2007