ActivitiesReport

for the quarter ended 30 September 2010

Dear investor

By the time shareholders receive this quarterly report, a number of you will have attended our Annual Meeting in Auckland, or one of the investor briefings held in Wellington and Christchurch. Through our website and written publications like this quarterly report, NZOG strives to keep its shareholders well informed. But it is always good to meet personally with the owners of the company to answer your questions and explain what we have been doing, what we are planning to do, and why.

At the beginning of October around two-thirds of our shareholders received a 5 cents per share dividend, with the remaining one-third electing to exchange the cash for additional NZOG shares. The Dividend Reinvestment Plan was introduced last year in response to shareholder requests and it is pleasing to see a continued strong take-up of the Plan.

The Kupe gas and oil field was in full production through the quarter, earning NZOG NZ$18.5m in revenue. Of the three products produced at Kupe – sales gas, LPG and light oil – the light oil provided the greatest financial return, with international prices remaining firm through the quarter.

Production was steady from the Tui area oil fields, where only three of the four wells were producing during the quarter. A workover of the Pateke-3H well began in late August to repair the well's artificial lift system. Weather delays saw this work run over time and over budget, but the repairs were completed and the rig released in mid-October. NZOG received NZ$5.2m in revenue from Tui in the September quarter.

On the exploration front, NZOG has signed up Peak Oil & Gas Ltd as a partner for its Kaupokonui permit in the southern offshore Taranaki Basin. Peak is a new Australian company established by experienced and respected oil industry figures. The initial public offering (IPO) is being managed by Macquarie and it is the biggest float in the Australian oil & gas sector this year. The farm-in to Kaupokonui is conditional on the successful completion of the IPO by the end of November. Under the agreement Peak will meet 20% of the costs of an exploration well (with conditions), in return for a 10% permit stake.

NZOG is encouraged by the continued level of industry interest in Kaupokonui and is hopeful of signing up at least one more joint venture partner ahead of the drilling commitment required in January 2011.

At the end of September, NZOG agreed to provide further support to Pike River Coal Ltd through a short-term working capital facility. Completing the development of the Pike River mine has had further unforeseen delays but it undoubtedly contains a highly valuable resource of coking coal. It remains in the best interests of NZOG and its shareholders to support Pike River until it is able to generate positive cash flows from the steady production and sale of that coal resource.

David Salisbury CEO
19 October 2010

Key Points

- **5 cents per share dividend paid**
- **Strong Kupe production**
- **Workover of Pateke well**
- **New partner for Kaupokonui**
- **Pike River supported**

Production

Kupe

Kupe Gas and Oil Field
(PML 38146, NZOG interest 15%)
The field is producing as expected and the production station near Hawera is performing reliably, with plant availability of over 99% since commercial operations began in late March 2010.

As part of the regulatory requirements, a comprehensive inspection of the production station will be undertaken in November, requiring a three to four week shutdown.

In the three months to the end of September, Kupe produced 5.5 PJ of sales gas (NZOG's share 0.65 PJ), 24,000 tonnes of LPG (NZOG's share 3,600 tonnes) and almost 600,000 barrels of light oil (NZOG's share 90,000 barrels). NZOG receives 15% of the LPG and oil production. NZOG is also entitled to 15% of the sales gas, but the actual share in any one period can vary, as it is based on daily nominations from Genesis Energy.

All of the sales gas from Kupe was sold to Genesis Energy and NZOG's share of the LPG is sold to Vector subsidiary On Gas, both under long-term contracts. The light oil was exported to Australian refineries through Port Taranaki.

NZOG Production

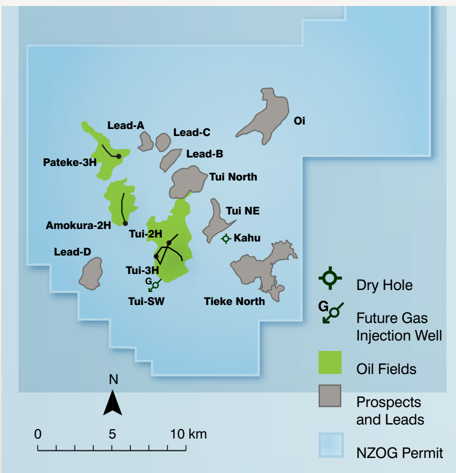
Product	July - September 2010
Kupe:	
Kupe sales gas	650 terajoules
Kupe LPG	3,600 tonnes
Kupe light oil	90,000 barrels
Tui:	
Tui oil	80,000 barrels

Tui

Tui Area Oil Fields
(PMP 38158, NZOG interest 12.5%)
Tui production for the quarter was 642,000 barrels of oil, at an average rate of just under 7,000 barrels per day. NZOG's share of the oil production was 80,000 barrels. There were two tanker shipments totalling just under 420,000 barrels, with approximately 300,000 barrels in stock at the end of the quarter.

Throughout the period only three wells were producing. A workover of the fourth production well, Pateke 3-H, was carried out. The workover was costly but necessary, with an estimated 5 million barrels of oil remaining to be recovered from Pateke.

Production from the Tui area oil fields is likely to be temporarily suspended for about one week in November to allow for some planned process modifications to be made to the floating production storage and offtake (FPSO) vessel, the Umuroa. The production forecast for the year to the end of June 2011 remains at 2.8 million barrels.



Investments

PIKE RIVER COAL

Pike River Coal Limited (PRC)
(NZOG interest 29.4%)
In late September, NZOG agreed to provide a short-term working capital facility to Pike River of up to NZ$25m.

The new facility will sustain the final stages of the development of the underground mine and the acquisition of additional mining equipment, while protecting NZOG's significant investment in Pike River and providing a healthy return on investment for our shareholders.

The short-term facility has an interest rate of 13%, establishment and monitoring fees totaling $600,000 and is repayable in full on 15 December 2010.

Pike River will also ask its shareholders to approve a one year extension, to March 2013, to NZOG's coal option, which allows NZOG to enter into an offtake agreement to purchase Pike coking coal at market prices to be negotiated annually.

The new arrangements are in the best interests of both companies. Pike River is now producing its highly valued coking coal and the first two shipments have been exported. However, with the underground mine roadways still being developed and hydro-mining equipment in the commissioning phase, Pike River currently requires further working capital.

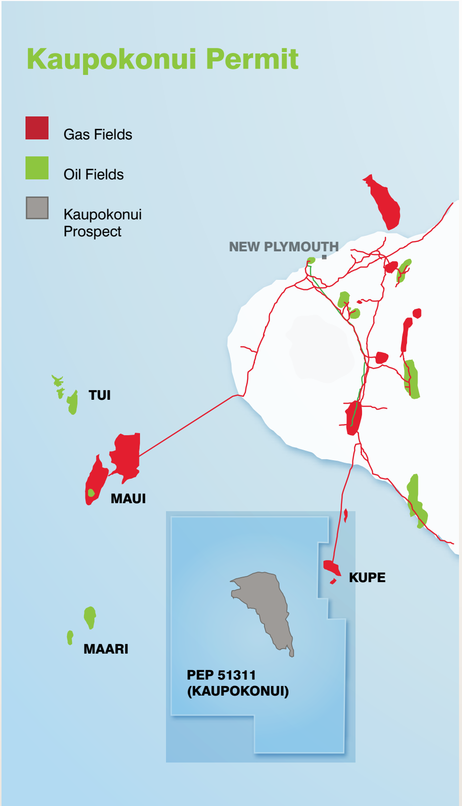
Pike River has in NZOG a supportive investor providing the short-term funding it needs, allowing Pike River to focus on ramping up to full production. The new facility is value creating for NZOG and is a continuation of our strategy of managing this investment in the interests of our shareholders.

Further details on Pike River Coal are available at www.pike.co.nz

Exploration

TARANAKI BASIN

PEP 51311 (Kaupokonui)
NZOG interest 90%
NZOG has concluded a farm-out arrangement with Peak Oil & Gas Ltd, which is taking a 10% stake in the Kaupokonui permit. Discussions are continuing with a number of other companies that are also interested in farming into the permit, which contains the drill-ready Kaupokonui prospect, a stacked series of Middle Miocene Motueka coastal sands, with estimated mean prospective recoverable resources of over 200 million barrels of oil. NZOG is investigating drilling rig options and a preliminary well plan has been prepared. A site survey has verified the suitability of the proposed well site, in 96m water depth. Under the permit conditions a commitment to a well is required by January 2011, with the well to be drilled within the following 12 months.



Regional Seismic Programme
Over 600km of seismic lines shot across the southern offshore Taranaki Basin have now been processed, and are being interpreted in conjunction with the associated gravity and magnetic data, and information from the eight tie wells. Evaluation of the data gives NZOG a better understanding of the region's complex geological evolution.

PMP 38158 (Tui) NZOG interest 12.5%
The results of the unsuccessful Tui SW and Kahu wells are being incorporated into the joint venture's overall understanding of the Tui area. A number of other prospects and leads within the permit block remain under evaluation.

PML 38146 (Kupe) NZOG interest 15%
This permit contains the producing Kupe Field and also a number of interesting prospects and leads. The joint venture is conducting further geological and geophysical assessments, with the goal of drilling one or more prospects in conjunction with scheduled 2nd stage development drilling in 2012, subject to rigorous evaluation criteria.

PEP 51558 (Parihaka) NZOG interest 20%
In June 2010, NZOG agreed to acquire Mighty River Power's 20% interest in this large offshore Taranaki permit, which enhances our core offshore Taranaki Basin position. Formal government approval was given in mid-October. The block is covered by a 1500 sq km 3D seismic survey acquired under a previous permit, which the joint venture is re-evaluating to help assess prospectivity.

PEP 38491 (Albacore) NZOG interest 44%
Results from the unsuccessful Albacore-1 well drilled in December 2009 have been evaluated and focused mapping work is underway. Mighty River Power has left the joint venture, with its 10% stake split between the remaining partners, NZOG and Westech.

PEP 51988 (Mangaa) NZOG interest 100%
NZOG was granted this block in January 2010. Technical studies are underway in conjunction with evaluation of the Albacore-1 results in the adjacent permit.

PEP 38483 (Bahamas)
NZOG interest 18.9%
The Operator, AWE, is continuing to seek new partners to join the joint venture before a decision is made whether or not to test the Bahamas gas play with an exploration well. This decision will be made by December 2010.

PEP 51321 (Kahurangi)
NZOG interest 18.9%
In May 2010, NZOG acquired 200km of 2D seismic data across this permit on behalf of AWE as Operator. The data from this survey has been processed and is being integrated with the existing data to allow any identified prospects and leads to be mapped.

PEP 38401 (Hoki) Relinquished
The wildcat exploration well Hoki-1, drilled in March 2010, did not find any significant hydrocarbons. On 14 October 2010 the joint venture agreed to hand this permit back to the Crown.

CANTERBURY BASIN

PEP 38259 (Barque) NZOG interest 40%
In July 2010 the joint venture applied for a six month extension on the decision whether or not to commit to drilling an exploration well. A decision on the extension is still pending from Crown Minerals. Provided that the extension is granted, that drill or drop decision will need to be made by February 2011. This permit contains the Barque prospect along with the Galleon well, which was drilled in 1986 and discovered sub-commercial quantities of gas and light oil.

PIT (Priority In Time) Application
NZOG lodged a PIT application with Crown Minerals in May 2010 for an area immediately to the north of PEP 38259. The joint venture partners from the Barque permit have now joined with NZOG in the PIT application. The revised application is not subject to any competing applications and is currently being processed by Crown Minerals.

Financial update

NZOG's operating revenue for the September quarter was NZ$23.7m. This was comprised of revenue from the sale of Tui oil (NZ$5.2m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$18.5m).

The declaration of a 5 cents per share dividend saw $12.7m in cash paid out. 5.2 million new shares were issued to the 32% of shareholders who elected to take additional shares, rather than cash.

On 30 September, Pike River Coal made the first call on a new NZ$25m short-term funding facility provided by NZOG. The first draw down of $3m included $600,000 in establishment and monitoring fees paid back to NZOG. NZOG also received $980,000 in interest payments on its Pike River convertible bond during the quarter.

On 6 September, NZOG announced a share buy-back scheme. As at the end of the quarter, 13,119 shares had been purchased and cancelled, for between $1.25 and $1.27 per share.

At 30 September 2010, NZOG's cash balance was the equivalent of NZ$133.7m. NZ$63m has been drawn from a $75m debt facility with Westpac, giving NZOG a net cash position of NZ$70.7m.

More financial information is contained in the September 2010 Quarterly Cash Flows Report, which has been released to the NZX and ASX.

Destination New Zealand

The bi-ennial New Zealand Petroleum Conference was held in Auckland from 19-22 September. NZOG was a principal sponsor and Chief Executive David Salisbury gave a keynote address, titled "Destination New Zealand". The following comments are based on that presentation. The full address can be found on our website at www.nzog.com/presentations

Oil and gas companies are global explorers – like the global traveller, with a world of possibilities. Our tourism industry understands New Zealand's role in the global tourism business and promotes "Destination New Zealand" to travellers. It may be of interest to consider how Destination New Zealand looks to global petroleum explorers.

As with the traveller, the explorer is looking at the package. The potential for oil and gas is a must, but it is the whole business that needs to be considered, and compared with what is on offer worldwide. The global petroleum explorer will typically evaluate the business opportunity by considering parameters that include: hydrocarbon potential; petroleum asset market depth and liquidity; infrastructure access; product market scale, access, liquidity; fiscal regime; product prices; exploration and production costs; political risk; regulatory and legal risk; and business networks.

These are broadly the criteria NZOG applies when looking for opportunities overseas. It is then an interesting exercise to be a "tourist in our own country" and to try to objectively evaluate the New Zealand opportunities.

Hydrocarbon Potential

Just as there are few tourists travelling the barren wastelands, there are few explorers who will go to areas without, at least, evidence of hydrocarbon potential. The New Zealand experience appeals to a select group. It involves the attractive but relatively sparse pleasures of Taranaki, or travelling to remote unproven destinations.

Taranaki is often described as a mature basin, and yet it is has yielded some of the biggest discoveries and additions (Pohokura, the Tui oil fields, Turangi and Mangahewa) in only the past decade. New thinking and new technologies have considerable potential to unlock further success in Taranaki, which is why NZOG continues to regard it as a core area.

The other New Zealand experience is the largely unspoilt landscape that offers a lot of adventure and potential for the intrepid explorer. The "yet to be explored but with good potential" opportunity will appeal to a relatively small sub-set of global explorers.

Market Depth and Liquidity

When we travel, we frequently will want a diversity and depth of experience. It has to be something quite extraordinary to get us to go a long distance for a single activity.

In exploration it is again the same. An explorer may travel to an exotic destination in search of an extraordinary prize, but for the more ordinary we want to know that the destination offers a range of accessible opportunities.

New Zealand has relatively few producing assets, which are tightly held so that there is little liquidity in the market. However, the explorer can generally access acreage and exploration opportunities in Taranaki or other basins in New Zealand. Potential access to a greater number of opportunities will assist to bring the explorer to New Zealand. Improvements to the Crown Minerals Act and the Minerals Programme will assist in this regard.

Fiscal Regime

The tourist does not enjoy feeling exploited and getting a bad deal. The explorer is the same. The explorer needs an appropriate return on their investment.

In New Zealand, the Government directly receives approximately 44% of the revenue generated by an oil or gas field development in royalties and taxes. In addition, the country benefits generally from direct and indirect economic impacts such as increased economic activity and employment.

As an overall fiscal regime, this split between Government and the investors is about right. However, there are circumstances in which the Government take can make a project sub-commercial, in which case it will not proceed or continue. The existing royalty regime incorporates an Ad Valorem Royalty component which as a regressive tax penalizes marginal developments and encourages early abandonment of fields. A change to only the Accounting Profits Royalty rather than the higher of Accounting Profits and Ad Valorem Royalty would appear to be a sensible adjustment.

Political and Regulatory Risk

The traveller will avoid destinations where there is political risk, something that can rapidly turn a pleasant holiday into an unpleasant situation.

The explorer is the same. The explorer wants to be able to make an informed decision to come to New Zealand with a robust understanding of the investment framework, and confidence that it will not be detrimentally changed.

The Government is to be congratulated for undertaking a wide-ranging review of the rules applying to the exploration and production sector. As a participant, we have experienced a proliferation of new rules and proposals from various regulatory bodies over the past decade or so. A focus on the fitness-for-purpose of the rules, and adequate resourcing and co-ordination of activities amongst the Government entities with responsibilities for administering the petroleum estate, is a very welcome initiative.

The Experience Overall

New Zealand offers the attractive but relatively sparse pleasures of Taranaki, and the high risk excitement of frontier exploration. For the explorer, there is a relative ease of access to new acreage, but a lack of opportunities across the spectrum of producing and development assets. There are good initiatives underway by the Government to encourage more exploration. The fiscal regime is suitability attractive.

It is right to be enthusiastic about the appeal and potential of Taranaki and the frontier exploration opportunities, but this should be tempered with the knowledge that the New Zealand experience is not unique, and the opportunities here compete with similar opportunities worldwide.

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