ActivitiesReport

for the quarter ended 31 March 2010

Dear investor

The Tui area oil fields have been hugely successful. Since July 2007 they have been a significant source of operating revenue for NZOG; in fact, the only source. In the last quarter that situation changed.

The Kupe gas and oil field began production in December 2009 and the product sales have been recognised as revenue since 1 January 2010.

A comprehensive commissioning period for Kupe ended on 22 March. A few days earlier, Kupe had been officially opened by Prime Minister John Key. As NZOG noted in a statement marking the occasion, Kupe is now making a significant contribution to New Zealand's energy needs. NZOG now has revenue diversity in respect of fields: Tui and Kupe; and products: gas, oil and LPG.

At current oil and LPG prices, around two thirds of NZOG's revenue from Kupe will come from these liquid products and one third from the gas that enters the North Island pipeline system.

NZOG's drilling programme did not make as much progress as we would have liked during the quarter. After a delayed arrival in New Zealand the semi-submersible rig Kan Tan IV began drilling the Hoki-1 exploration well in early March. The well reached a depth of 1505 metres without incident, but inspection then found that repairs were needed to the drilling mast.

The cost of repairs and the rig daily rate during the delay were met by the rig operator, not the joint venture partners. However, it's disappointing that these defects, which had been identified earlier, were not rectified prior to the rig's arrival in New Zealand as had been expected.

After a three week delay, drilling operations at the Hoki-1 well resumed on 6 April and the main target North Cape formation sands were reached on 16 April. Unfortunately no indications of hydrocarbons were found. While disappointing, it has to be remembered that Hoki was a high risk wildcat well – with high rewards if it had worked.

Following Hoki, the Kan Tan IV will move on to drill at least two wells near to the Tui area oil fields.

During the quarter NZOG sought the necessary approvals for a regional seismic programme in the offshore Taranaki basin and continued with farming out its stake in two promising exploration targets. (More details can be found later in this report).

In February, NZOG agreed to provide further funding support for Pike River Coal, in which we hold a stake of just under 30%. The package reflects our ongoing support for Pike, as well as being value creating for NZOG. It includes a convertible bond, a coal option and support for further equity raising. The package, subject to regulatory and shareholder approvals, is expected to be finalised and implemented by the end of May.

David Salisbury CEO
16 April 2010

KEY POINTS

- Kupe commissioning completed
- Hoki well drilled
- Pike funding package agreed
- Regional seismic programme approved
- Exciting Kaupokonui prospect identified

Production

Kupe

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

The Kupe gas and oil field was officially opened by Prime Minister John Key on 18 March 2010.

The extensive commissioning programme at the production station was declared completed on 22 March and the long-term gas supply arrangements with Genesis Energy took effect from that day.

In the three months to the end of March, Kupe produced 4.47 PJ of sales gas (NZOG's share 0.67 PJ), 12,220 tonnes of LPG (NZOG's share 1,830 tonnes) and 496,000 barrels of light oil (NZOG's share 74,500 barrels). Total revenue from product sales during the quarter was NZ$13.16m.

This revenue from the commissioning phase does not reflect expected future revenue levels. The gas price was discounted during commissioning and there were lower LPG volumes ahead of the full start-up of CO_2 extraction. Also, during commissioning the joint venture controlled gas delivery rates. Post-commissioning, Genesis dictates the gas offtake rate, subject to daily and annual maximum and minimum rates.

Having been discovered by NZOG back in 1986, Kupe has been a major undertaking for the company, requiring patience, perseverance and a significant financial investment. Seeing Kupe through to fruition demonstrates the long term commitment which NZOG has to the petroleum exploration and production business in New Zealand.

Prime Minister John Key, Kupe opening

Tui

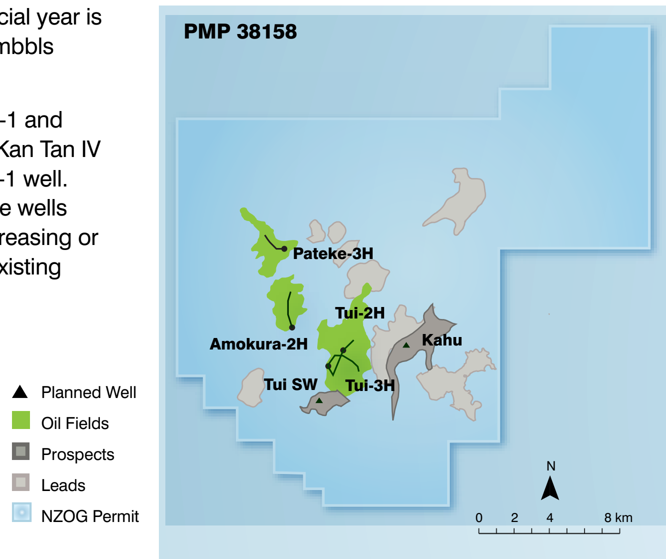
Tui Area Oil Fields
(PMP 38158, NZOG interest 12.5%)

Total Tui production for the quarter was a little over 1.1 million barrels (mmbbls) at an average rate of 12,500 barrels of oil per day. NZOG's share of that production was 140,000 barrels.

As expected for fields of this nature, production rates are slowly declining over time. However, Tui is producing significantly ahead of its original production forecast. Some technical modifications have been made to the facilities to maximise the oil recovery rates, including improvements to the gas lift compression system. Further facility modifications are planned in the coming months.

Total production for the full financial year is still forecast to be around 4.8 mmbbls (NZOG's share 600,000 barrels).

At least two wells, Tui Southwest-1 and Kahu-1, will be drilled using the Kan Tan IV following completion of the Hoki-1 well. Success in either or both of these wells would open the possibility of increasing or extending production from the existing Tui facilities.



Exploration

TARANAKI BASIN

Regional Seismic Programme

NZOG has contracted the seismic vessel *Reflect Resolution* to acquire a series of regional seismic lines across the offshore Taranaki Basin, including traverses across the exciting Kaupokonui prospect in PEP 51311. The work is currently scheduled for early May.

The over 600km of new seismic lines tied into previous wells will enable us to evaluate the effects of the region's complex geological evolution on key petroleum system elements, such as determining the location and timing of oil and gas charge, and migration pathways.

This comprehensive approach has not been carried out by any other company and will give NZOG an advantage in assessing the prospectivity of the southern and western offshore Taranaki basin.

PEP 38401 (Hoki)
NZOG interest 10%

The wildcat well Hoki-1, drilled in March/April with the semi-submersible rig Kan Tan IV, was targeting the oil potential of the Cretaceous North Cape reservoir sequence and the underlying Wainui sandstones. Hoki-1 was further from shore than any previous offshore Taranaki well and located on the steep upper continental slope in water depth of over 300m. It was a relatively high risk prospect, but had the possibility of containing significant recoverable oil resources.

PEP 51311 (Kaupokonui)
NZOG interest 100%

In the southern Taranaki offshore basin is exploration permit PEP 51311, which NZOG acquired in January 2009. NZOG recognised the prospectivity of the area and acted on its own to acquire 100% of the permit. NZOG has since acquired 500km of new 2D seismic, reprocessed historic seismic and mapped an extensive portfolio of prospects and leads.

PEP 51311 is within the same petroleum system that has charged the Moki sands which hold the reservoir for the Maari oil field 20 km to the west, and the Farewell sands of the Kupe field 20 km to the east.

Extensive work by our technical team has identified a number of attractive opportunities within the permit. The highest ranked prospect is Kaupokonui, a stacked series of Motueka coastal sands, which are laterally truncated and prognosed to be sealed by deep canyons.

Estimates of mean prospective recoverable resources in the main objective horizon of Kaupokonui are 200+ million barrels of oil. It's an exciting potential prize, but like all exploration, it's risky. In particular, Kaupokonui relies on a trapping mechanism that has been found in other parts of the world but that still needs to be shown to work in Taranaki. (See the back page diagram).

NZOG is considering reducing its 100% holding by attracting one or more partners prepared to commit to drilling at least one exploration well. Under the permit conditions, a drilling commitment needs to be made by January 2011.

PEP 38491 (Albacore)
NZOG interest 40%

The Albacore-1 well was drilled by the ENSCO-107 jack-up rig in December 2009. Only traces of hydrocarbons were found. The results are being evaluated to help assess remaining prospectivity of the northern graben region of the Taranaki Basin.

PEP 51988 (Mangaa)
NZOG interest 100%

NZOG's Permit in Time (PIT) application for a block immediately to the north of PEP 38491 was granted by Crown Minerals in January 2010. The permit work programme requires NZOG to undertake technical studies during the first 24 months of the permit term. These studies are being initiated in conjunction with evaluation of Albacore-1 results in the adjacent permit.

PEP 38483 (Bahamas)
NZOG interest 18.9%

In March 2010, Crown Minerals agreed to a change of conditions to allow more time to complete the evaluation of the Bahamas gas play and make a decision in relation to drilling. This included a relinquishment of the less prospective area of the permit.

PEP 51321 (Kahurangi)
NZOG interest 18.9%

Mapping and evaluation of prospects and leads in this block is about to commence with the recent completion of an extensive seismic reprocessing project. New seismic will be shot in May in conjunction with NZOG's regional seismic programme.

CANTERBURY BASIN

PEP 38259 (Barque)
NZOG interest 40%

NZOG is offering to farm out part of its 40% interest in exploration permit PEP 38259, in the offshore Canterbury basin. The permit contains the Barque prospect, a high relief anticlinal dome, which is capped by a transgressive sand (the principal objective) and sealed by marine shale. Charge is from the thermally mature coal measures of the Taratu Formation, which directly underlie the reservoir.

The permit also contains the Galleon well which was drilled in 1986 and discovered what was at the time considered to be sub-commercial quantities of gas and light oil. The Barque prospect is similar to but larger than Galleon.

Anadarko and Origin Energy have recently announced their intention to drill a similar structure in deeper water about 75 km south-south-west of Barque.

A drilling commitment for PEP 38259 needs to be made by August 2010. The Barque prospect will require the availability of a deep water-capable offshore drilling rig. The timing of any drilling is likely to be dictated by mobilisation of such a rig in conjunction with other deep-water projects in the southern New Zealand region.

Investments

PIKE RIVER

Pike River Coal Limited (PRC)
(NZOG interest 29.5%)

The first shipment of high quality coking coal from the Pike River mine left Port Lyttelton in February. The 20,000 tonne shipment went to India and had a value of approximately $3.4m. However, production delays have required Pike to seek further working capital.

NZOG has moved to enhance its investment in Pike through a funding package, which includes participation in an equity issue and a convertible bond. In addition, NZOG will acquire a transferrable option to purchase a quantity of Pike coking coal over the remaining life of the mine. The package is subject to regulatory and shareholder approvals which Pike is in the process of seeking. The funding arrangements are expected to be completed by the end of May. NZOG is also providing Pike with a short-term funding facility, which is to be repaid from the proceeds of the equity issue.

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

PAN PACIFIC

Pan Pacific Petroleum (PPP)
(NZOG interest 14.9%)

There was no change during the quarter to the shareholding in PPP that NZOG acquired in December 2008.

PPP is a 10% partner at Tui, where at least two wells will be drilled in the coming months.

Further details on Pan Pacific Petroleum are available at www.panpacpetroleum.com.au

Financial update

NZOG's operating revenue for the March quarter was NZ$30.22m. This was comprised of revenue from the sale of Tui oil (NZ$17.06m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$13.16m).

During the quarter NZOG spent NZ$4.4m on exploration, which was mostly at the Hoki-1 well.

In March, NZ$3.5m was advanced to Pike River Coal as part of a short-term financing agreement, which is required to be paid back from the proceeds of Pike's planned equity issue. Pike paid NZOG a fee of NZ$450,000 for initiating use of the short-term facility, which has been accounted for as non-operating revenue.

At 31 March 2010, NZOG's cash balance was the equivalent of NZ$192.5m. During the quarter NZOG converted US$25m to New Zealand dollars, at an average conversion rate of just under 69 cents US to NZ$1. This was done to re-balance our currency holdings in response to changes in US dollar revenues and New Zealand dollar costs and payments.

Approximately 59% of NZOG's cash balance remains held in US dollar denominated accounts with major NZ-based banks.

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

Farming out

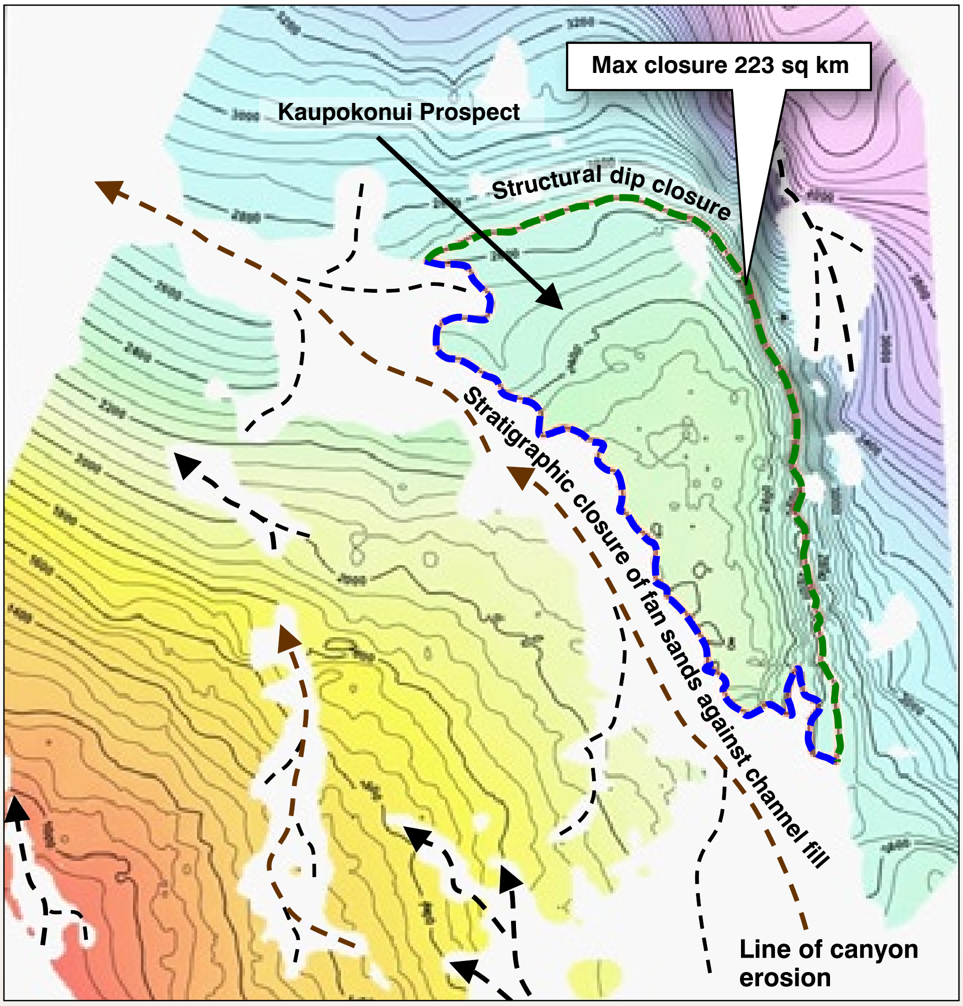
Farming out, and farming in, are industry terms for a "business-as-usual" practice in the upstream petroleum sector. Exploration is a risky business so companies look to enhance their expected returns by spreading their exposure across a portfolio of opportunities. A company may pick up an exploration permit itself and meet some of the initial, typically lower, costs, such as acquiring 2D seismic data. But joint ventures are usually formed ahead of costly activities, such as 3D seismic acquisition and drilling.

A 'farm out' occurs when a company with an interest in a permit assigns some of that interest to another party, which 'farms in' by meeting (generally) a higher share of the costs of the next stage of exploration work. Depending on the attractiveness of the opportunity, there are a variety of financial terms that can be agreed to.

NZOG is considering farming out some of its interests in two promising exploration opportunities, one in the Taranaki basin and the other in the Canterbury basin, ahead of drilling commitment decisions.

NZOG is marketing these two opportunities – Kaupokonui and Barque – to suitable companies around the world, using detailed data and diagrams like the one shown here. More information is available at www.nzog.com/exploration.

Kaupokonui Depth Map



For further information please contact:

David Salisbury, Chief Executive Officer
Chris Roberts, Public Affairs Manager

Call +64 4 495 2424
Toll free 0800 000 594 (NZ)
Email enquiries@nzog.com
Visit www.nzog.com

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

New Zealand

Computershare Investor Services Limited
Private Bag 92119
Auckland
New Zealand

Freephone:
0800 467 335
Telephone:
+64 9 488 8777

NZOG stock symbols
NZX Shares – NZO ASX Shares – NZO

Australia

Computershare Investor Services Pty Limited
GPO Box 242
Melbourne
Victoria 3001
Australia

Freephone:
1 800 501 366
Telephone:
+61 3 9415 4083