ActivitiesReport

for the quarter ended 31 March 2011

Dear Investor

An increasing focus for NZOG has been on pursuing overseas opportunities. During the quarter, and at the end of a long competitive process, we were outbid for a bundle of significant assets in Southeast Asia. While disappointing, we are confident of the quality of our due diligence and investment analysis – and we will not overpay for an investment, simply to be seen to do a deal. We are also encouraged at the current availability of assets which we continue to assess.

NZOG is currently pursuing a number of potentially attractive investments, both in New Zealand and overseas. We are in the final stages of officially securing some attractive exploration acreage in the northern hemisphere and will establish a branch office there to manage our acreage and pursue new opportunities. As we have previously explained, there are not sufficient opportunities available to us in New Zealand and we intend to establish one or two new core areas beyond our shores.

Oil prices have risen strongly in 2011 and are reflected in higher returns for oil from the Tui and Kupe fields. Production from both fields was higher than in the previous quarter. However the Kupe gas and oil field currently faces constrained production until a faulty gas compression unit is replaced. This will reduce the short-term forecast for Kupe production and associated revenues.

In our exploration portfolio, NZOG has taken larger stakes in permits in the northern offshore Taranaki Basin, and will take over operatorship of the Barque permit in the Canterbury Basin.

Investors will be aware that in early March control of the Pike River mine was handed over from the Police to the Receivers of Pike River Coal Limited (PRCL). The Receivers have a sales process underway and have stated that they are aiming to conclude a sale by August. NZOG remains confident that it will, at a minimum, recover its secured debt through the sales process.

The tragic events at Pike River have clearly had a major impact on NZOG. We reported a large loss for the first half of the financial year and our share price has fallen significantly. However, the broker consensus is that the market has over-reacted and our current share price does not reflect the underlying value of the company.

Going forward our focus is on maximising the value from our existing portfolio (including Pike River), identifying exploration targets, securing attractive new assets, and, as a consequence, increasing the share price. None of those tasks are easy but I can assure you that all are being pursued with great determination.

David Salisbury CEO
20 April 2011

Key Points

- **Rising oil prices boost revenue**
- **Pike River sales process underway**
- **Exploration portfolio expanded**

Production

Kupe

Kupe Gas and Oil Field (PML 38146)
NZOG interest 15%
With no significant downtime, Kupe production was higher than in the previous quarter. In the three months to the end of March, Kupe produced 4.4 PJ of sales gas (NZOG's allocation 0.71 PJ), 18,750 tonnes of LPG (NZOG's share 2,800 tonnes) and 450,000 barrels of light oil (NZOG's share 67,000 barrels).

NZOG's revenue from Kupe in the quarter was NZ$20.3m.

While the plant performance has generally been very good, a motor shaft on a gas compressor unit failed in early March. This is to be replaced at the manufacturer's cost but the repairs may not be completed until June or July. In the meantime, gas production is limited to 50 terajoules per day (the plant is designed to produce at a daily rate of between 45 and 70 TJ), which also limits the associated LPG and oil production. The timing of this failure is disappointing as we had forecast higher gas offtake, and associated liquids production, during the June quarter. We now expect Kupe production in the June quarter to be similar to that seen in the March quarter.

Tui

Tui Area Oil Fields (PMP 38158)
NZOG interest 12.5%
Tui production was also higher than in the previous quarter. All four producing wells performed to expectation. Total oil production for the March quarter was over 776,000 barrels of oil, at an average rate of 8,620 barrels per day. NZOG's share of the oil production was 97,000 barrels.

NZOG's revenue from Tui in the quarter was NZ$12.0m. There were two tanker shipments totalling 790,000 barrels, with approximately 420,000 barrels of oil in stock (NZOG's share 53,000 barrels) at the end of the quarter.

NZOG Production

Product	January - March 2011	Previous Quarter
Kupe:		
Kupe sales gas	0.71 petajoules	0.56 petajoules
Kupe LPG	2,800 tonnes	2,200 tonnes
Kupe light oil	67,000 barrels	53,000 barrels
Tui:		
Tui oil	97,000 barrels	90,000 barrels

Financial update

NZOG's operating revenue for the March quarter was NZ$32.3m. This was comprised of revenue from the sale of Tui oil (NZ$12.0m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$20.3m).

NZOG calculates that the current limit on production at Kupe will mean that our revenue from Kupe for this financial year will be approximately $5-6m lower than it would have otherwise been. However, if oil prices remain at or near their current levels, NZOG still expects its total revenue for FY11 to exceed $100m.

In March, NZOG took advantage of the sudden, and short-term, decline in the New Zealand dollar to convert US$13.7m to New Zealand dollars, as part of re-balancing NZOG's currency holdings toward a 50/50 mix of USD and NZD holdings.

At 31 March 2011, NZOG's cash balance was the equivalent of NZ$130m. NZ$63m has been drawn from a NZ$75m debt facility with Westpac, giving NZOG a net cash position of NZ$67m.

More financial information is contained in the March 2011 Quarterly Cash Flows Report, which has been released to the NZX and ASX.

Exploration

TARANAKI BASIN

PEP 51311 (Kaupokonui)
NZOG interest 90%
The Kaupokonui oil prospect is ready to drill and NZOG is investigating possible drilling rig options for 2012. The total cost of the well is expected to be around US$15 million (gross).

Kaupokonui comprises several vertically-stacked potential reservoir sands with recoverable resources (un-risked) in excess of 200 million barrels of oil. Recent seismic modelling has upgraded the chance of success through indications of a small gas cap on the main postulated oil column. Several other prospects have been identified within the permit.

NZOG has a farm-out agreement with Peak Oil & Gas (which has since merged with Raisama Ltd, an ASX-listed resource exploration and development company) whereby Peak will earn a 10% interest in PEP 51311 by contributing 20% of the cost of the Kaupokonui-1 well. NZOG intends to further farm down its exposure to the cost of drilling.

PMP 38158 (Tui)
NZOG interest 12.5%
This permit contains the producing Tui area oil fields and a number of prospects and leads. The 3D seismic data covering most of the permit area has been reprocessed including pre-stack depth migration. Systematic reservoir modelling is in progress to establish the scope for any further development drilling within the producing Tui, Amokura and Pateke fields. Un-drilled prospects including Oi and Tieke North are also undergoing further evaluation incorporating the latest seismic reprocessing and modelling work.

PML 38146 (Kupe)
NZOG interest 15%
This permit contains the producing Kupe Central Field area and also a number of interesting prospects and leads. The joint venture is conducting further geological and geophysical assessments, with the possibility of drilling one or more prospects in conjunction with scheduled 2nd stage development drilling in 2012/13.

PEP 51558 (Parihaka)
NZOG interest 50%
NZOG and Todd Energy have both increased their stakes to 50% in this northern offshore Taranaki Basin permit, with Todd Energy taking on operatorship. Subject to government approval for a change to the work programme, a large 3D seismic survey acquired by a previous venture in 2007 will be processed to improve definition of deep targets within the Kapuni sandstones, which have proven effective reservoirs in the northern part of onshore Taranaki.

PEP 38491 (Albacore)
NZOG interest 100%
NZOG holds 100% of this second-term exploration permit following the withdrawal of Westech, the previous operator. The prospectivity associated with several undrilled structures is being examined in conjunction with exploration work in the adjacent permits.

PEP 51988 (Mangaa)
NZOG interest 100%
NZOG was granted this block in January 2010. The permit work programme requires NZOG to undertake technical studies during the first 24 months of the permit term.

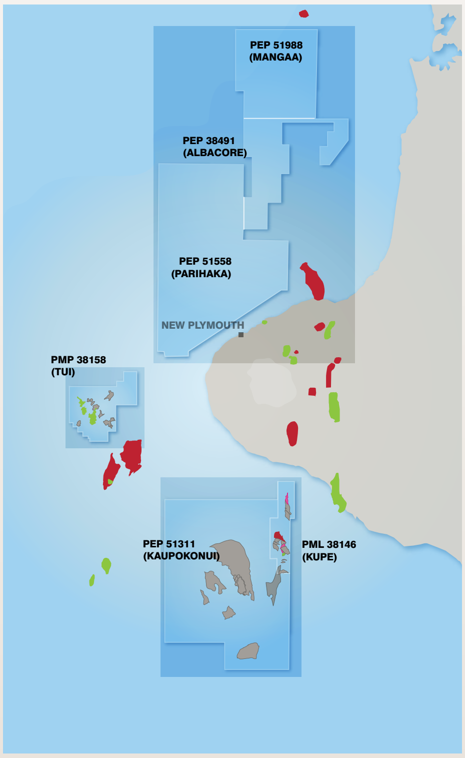
PEP 51321 (Kahurangi)
NZOG interest 18.9%
In March, the joint venture agreed to relinquish this permit on the western margin of the Taranaki offshore basin.

CANTERBURY BASIN

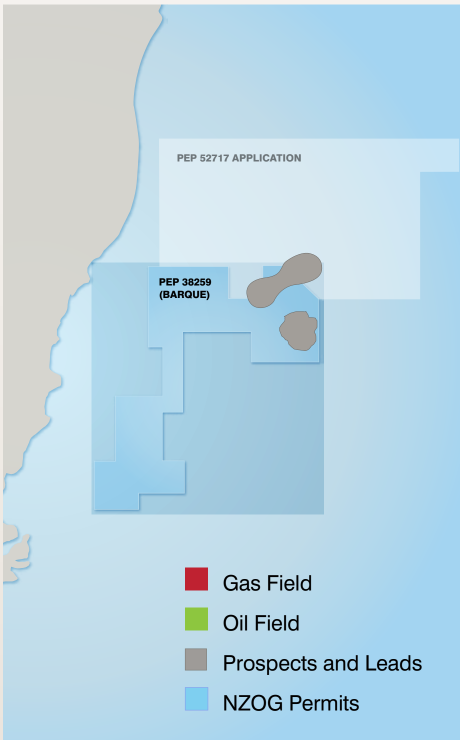
PEP 38259 (Barque)
NZOG interest 40%
Subject to ministerial approval, NZOG will take over operatorship of this permit from AWE. The permit contains the large Barque gas-condensate prospect and a lead identified by NZOG that extends across the permit boundary into the Clipper permit. The permit is subject to a change of conditions application, to allow the joint venture sufficient time to evaluate the cost of drilling and developing the prospect and to investigate the availability of a suitable rig.

PEP 52717 Application (Clipper)
NZOG interest 40%
There has been a long delay in Crown Minerals granting this application. Once it is granted, NZOG will be operator; the joint venture is the same as the one which holds the adjacent Barque permit. Existing seismic data will be reprocessed in order to map the newly-recognised potential reservoir system across both blocks.

Taranaki Basin Permits



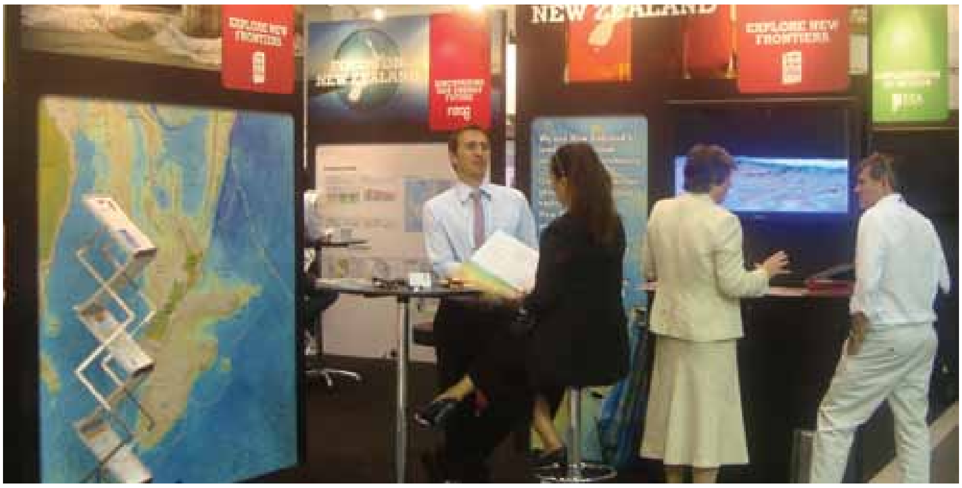
Canterbury Basin Permits



Industry Events

In recent months NZOG has been an active participant at regional industry events, such as the Excellence in Oil & Gas Conference in Sydney, the SEAPEX Conference in Singapore, and the APPEA conference in Perth. At APPEA (shown right), NZOG was part of a New Zealand exhibition supported by NZ Trade & Enterprise.

These industry events provide invaluable opportunities to enhance existing business relationships and develop new ones. We have been able to promote our own portfolio, in particular the Kaupokonui prospect, as well as identify new investment opportunities.



Share Buy-Back

A share buy-back scheme was announced in September last year. The NZOG Board is of the view that the NZOG share price is significantly below fair value and does not reflect a reasonable current valuation of the company, even without taking into account the growth prospects about which the Board and management are confident.

A buy-back of shares is an opportunity to provide a return to shareholders in excess of NZOG's cost of capital. By buying back shares and cancelling them, the net asset value supporting each of the remaining shares is slightly increased – benefiting all shareholders.

The maximum number of shares that can be acquired in the buy-back is 8.5 million.

Purchases may continue up until 30 June 2011. The shares acquired are immediately cancelled.

In the three months to 31 March 2011, 1,208,294 ordinary shares were acquired and cancelled under the share buy-back scheme; at an average price of NZ88c per share and a total cost (including brokerage) of NZ$1,060,936.

At 31 March 2011 the total number of shares acquired and cancelled since initiation of the scheme was 1,974,509; at an average price of NZ98c per share and a total cost (including brokerage) of NZ$1,935,334.

The identity of the seller or sellers of the securities is not known to NZOG.

Pike River

Following a preliminary one-day hearing held in early April, the Royal Commission of Inquiry will commence its hearings in late May. NZOG fully supports the objectives of the Royal Commission and is actively working to assist the Inquiry. We have prepared a comprehensive submission on the history of the mine development from 1979 when the prospecting licence was first granted, to July 2007, when PRCL became a separate listed company and was no longer controlled by NZOG. We expect this submission to greatly assist the first stage of the Royal Commission's deliberations.

As a secured creditor and shareholder, NZOG will have an appropriate level of engagement as the Inquiry proceeds. We do not expect the costs incurred by NZOG for that participation to be significant.

For further information please contact:

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