CEO'S PRESENTATION
To the 2010 Annual Meeting
27 October 2010

It is a pleasure to address you again and to see such a healthy turnout. We enjoy having the opportunity to meet with you and to discuss the performance of your company.

2010 Results

2010 was a year of many successes, but some headline failures, so that the end result was not the positive one we aim to deliver to you.

On the positive side;

- Kupe came into production and has been producing very well
- The Kupe reserves upgrade meant that year-on-year we replaced our reserves, which is very important because without reserves replacement or growth, the company is shrinking
- Tui continued to perform well and in line with expectations, although the problems with the gas lift system at the Pateke well have required a US$50m workover (a net cost of US$6.25m to NZOG), which was an unexpected cost compounded by a deferral of production
- We invested NZ$120m in Kupe, Pike River and exploration activities while maintaining a year-end cash balance of NZ$142m to fund ongoing activities
- In line with our strategic focus on value creating growth, we have grown the exploration portfolio and participated in drilling four exploration/appraisal wells at a cost of NZ$34m
- A fully imputed dividend of 5c per share was paid to shareholders in October

On the negative side;

- We drilled 4 exploration/appraisal wells without commercial success
- While Pike River is now almost fully developed, it has continued to experience lower than forecast operational performance, requiring further financial support from its shareholders, in particular, NZOG
- The headline financial result was a loss of NZ$3.3m

It is, however, necessary to look beyond the headline numbers to get a proper understanding of the company's performance in the past year. We are required to comply with the reporting standards, although the aim of transparent results is not always the outcome of applying the standards.

In our case, the financial results were affected by some large items that merit a little bit of explanation.

An obvious example is the inclusion in our results of NZ$11.5m, being our equity share of the loss experienced by Pike River. We are required to report a share of the profit or loss of associate companies. We also report our share of the carrying value of Pike River's net assets in the balance sheet, which is subject to impairment testing. In the last financial year, the value of our investment in Pike River remained above our investment cost notwithstanding its operating loss.

There are also the unrealised currency losses of NZ$8m as at balance date. NZOG has significant US dollar holdings for very good reasons – oil is sold in US dollars and much of our exploration and development expenditure is also in US dollars. The value of those holdings, if converted back into NZ dollars, fluctuates on a daily basis.

Stripping out these and other adjustments required by the accounting standards, the underlying financial performance was a normalized profit after tax of almost $14m.

Corporate Responsibility

Before commenting in detail on our operational performance, I want to briefly mention the broader role that NZOG plays as a significant New Zealand corporate.

This year we were one of the two principal sponsors of the New Zealand Petroleum Conference, the petroleum industry's flag-ship event held every two years. We take our position as a pre-eminent New Zealand based oil and gas company very seriously. This includes making considered submissions on the Government's comprehensive review and reform initiatives affecting our sector.

NZOG also recognises the importance of playing a significant community role. Through both the Kupe and Tui joint ventures, a range of projects are supported in Taranaki that have a positive impact and deliver long-term benefits to those local communities.

We have also entered into a significant and wider community partnership with SARINZ – the Search and Rescue Institute New Zealand. This year we funded research looking at changing demands in the future for search and rescue, as New Zealand ages and becomes more urbanised.

NZOG deliberately sought to sponsor SARINZ because it reflects our values and focus on safety, pro-active safety initiatives and community involvement. We are pleased to be associated with a not-for-profit organisation that contributes strongly to the wider community and whose motto is 'helping others save lives'.

Business Strategy

In the past year, we have worked hard to implement our two-pronged business strategy: maximising value extraction from our existing asset portfolio; while securing new value-adding business opportunities.

Put simply, this means getting the most out of what we've got, while actively pursuing opportunities to grow the company.

Getting the most out of what we've got
While NZOG is a minority partner in its two producing assets, Tui and Kupe, we actively manage our interests and contribute strongly to joint venture decision making.

The past year has also seen us take a more active role as Pike River Coal's largest shareholder and now largest debt holder.

Tui
The Tui area oil fields have now produced 29 million barrels of oil. That is more than the original estimate of the total recoverable oil in the fields – and yet, over 21 million barrels in proved and probable (2P) reserves are estimated to remain. NZOG's share of the remaining reserves is around 2.6 million barrels.

The Tui area oil fields have four producing wells – Tui-2H, Tui-3H, Amokura-2H and Pateke-3H. In June, production performance from Pateke-3H declined and it was identified that repairs were needed to the gas lift system. A workover got underway in August and after some significant weather delays was completed earlier this month. Pateke is now producing again, at a similar rate to prior to the workover.

Within the Tui permit a number of other oil prospects have been identified. Earlier this year, two of these were drilled – Tui Southwest and Kahu.

As the name suggests, Tui Southwest lies to the southwest of the producing Tui reservoir, which is a very subtle, flat structure with a thin oil column at a depth of over 3600m. The reservoir sand in Tui Southwest was just a few metres deeper than forecast but as a result its oil column had all but disappeared and the well was a sub-commercial discovery.

The Kahu prospect had a riskier objective with considerably larger potential. It was targeting a different structure to the existing Tui pools. The prospect was proved not to contain reservoir-grade sandstone.

Despite the commercial failure, the wells have added to our geological knowledge of the greater Tui area, and beyond. While obviously disappointing, these wells have not exhausted the Tui near-field prospectivity and a number of other attractive prospects and leads remain within the permit block. Site surveys have already been completed over three potential future drilling targets.

Kupe
Tui has been the star performer of the last few years, but the current and long-term importance of Kupe to NZOG is very substantial. Kupe began producing in December 2009 and is now NZOG's main source of revenue.

Kupe has been a major undertaking for NZOG, requiring patience, perseverance and a significant financial investment. The rewards are now being received.

During the year NZOG assisted the Operator to complete a comprehensive remodeling of Kupe reserves. This resulted in an upgrade of the initial proved and probable (2P) reserves by just over 1 million barrels of oil equivalent net to NZOG.

Gas reserves were increased by 8%, LPG reserves by 5% and light oil reserves by 27%. The oil is the most valuable of the three products, so this large increase in recoverable oil is particularly good news.

As already noted, as a result of the Kupe reserves upgrade, NZOG ended the financial year with a slight increase in remaining reserves.

To date, Kupe has produced approximately 17 PJ of sales gas (NZOG's share 2.4 PJ), 1.75 million barrels of light oil (NZOG's share 260,000 barrels) and 62,000 tonnes of LPG (NZOG's share 9,400 tonnes).

A series of detailed commercial arrangements are in place for Kupe – such as sales contracts for gas and LPG, and joint marketing arrangements for the light oil. These very valuable arrangements are closely managed and largely issue-free.

The field is producing as expected and the production station near Hawera is performing reliably. As part of the regulatory requirements, a comprehensive inspection of the production station will be undertaken in November, requiring an estimated 25 day shut-down.

NZOG has for a long time held the view that there are promising additional prospects within the Kupe permit area. The Kupe joint venture is currently further assessing the Kupe near-field prospectivity, with the target that one or more prospects could be drilled in 2012.

Pike River Coal Limited

The Chairman has already talked in some detail about our enhanced investment in Pike River.

I would like to reiterate that our ongoing support of Pike River has always been on the basis that it is in the best interests of you, NZOG's shareholders.

NZOG has contributed a total of NZ$85m in equity to Pike River. Currently, our 29.4% share of Pike River's ordinary shares has a market value of approximately NZ$120m. NZOG also has over 17 million 2011 options.

NZOG is, of course, Pike River's largest debt holder as well as largest shareholder.

The US$29m convertible bond issued by NZOG has an interest rate of 10% per annum and is repayable by March 2012. At NZOG's option, it can be converted to additional Pike River shares. NZOG also has an option to enter into an offtake agreement to purchase certain quantities of Pike River coking coal at market prices.

Last month, NZOG agreed to provide Pike River with a further short-term working capital facility of up to NZ$25m. The facility has an interest rate of 13% and is to be repaid in December.

This level of ongoing support for Pike River, as a shareholder and debt holder, goes beyond what we anticipated a year ago. However, NZOG has commissioned its own technical and management reviews and believes that, despite the delays in the mine reaching full production, the fundamental value of the project remains intact.

While the Pike River mine is still to deliver on its potential, NZOG considers that it has a positive long term outlook.

Looking for growth opportunities

The second part of our business strategy is the pursuit of value-adding growth opportunities.

We have built a seasoned team with strong technical and commercial capabilities, which allows us to actively and systematically look for sensible investments.

This team includes not only our Wellington-based staff, but two very experienced explorationists based in the UK and Canada. These Northern Hemisphere scouts give us the ability to identify and assess a range of opportunities that are not so accessible from down here in New Zealand.

These opportunities are across the spectrum from exploration, to development assets, producing fields and corporate acquisitions.

New Zealand Exploration

Over the past year NZOG has continued to expand its New Zealand exploration portfolio.

Northern Taranaki Basin

We have established a strong presence in the northern region of the offshore Taranaki Basin.

We farmed into the Albacore permit in August last year and the Albacore-1 well was drilled in December. Albacore-1was based on 3D seismic definition of a substantial anomaly that potentially represented oil-bearing sands. Unfortunately there was no oil, but the well data allows us to better characterize the nature and quality of potential petroleum reservoir systems in the northern offshore Taranaki region.

We also have permit holdings to the north and south of Albacore – Mangaa acquired at 100% in January; and Parihaka, where we took a 20% stake in June, joining experienced partners in Todd Energy, AWE and Mitsui.

The geological work being done now is to identify further targets that could be worth drilling.

Southern Taranaki Basin
NZOG has also developed a considerable presence in the southern offshore Taranaki Basin.

In May 2010, the seismic vessel Reflect Resolution acquired for NZOG over 600km of new seismic lines across the southern offshore Taranaki Basin, tied into previous wells. The new data is helping us evaluate some of the key petroleum system elements.

This comprehensive approach has not been carried out by any other company and gives NZOG an advantage in assessing the prospectivity of the southern Basin, including the Kaupokonui prospect.

Kaupokonui is in permit PEP 51311, which NZOG acquired in 2009. This permit contains a number of leads and prospects, including Kaupokonui, a stacked series of Miocene sands. The estimates of mean prospective resources are over 200 million barrels of oil, unrisked.

A drilling plan has been prepared and a site survey has been undertaken over the proposed Kaupokonui-1 drilling location.

NZOG has recently signed up Peak Oil & Gas Ltd as a partner for the permit.

Peak is a new Australian company established by experienced and respected oil industry figures. Peak is undertaking an initial public offering (IPO) managed by Macquarie which is the biggest float in the Australian oil and gas sector this year.

Under the farm-in 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 remains confident of signing up at least one more joint venture partner ahead of the drilling commitment required in January 2011.

Canterbury Basin
NZOG also has interests in the offshore Canterbury Basin. We have a 40% stake in PEP 38259, which contains the Barque prospect, along with the Galleon well, which was drilled in 1986 and discovered sub-commercial quantities of gas and light oil.

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.

The Barque joint venture parties have also lodged an application with Crown Minerals for an area that lies immediately to the north. This application is not subject to any competing applications and and we expect to be awarded an exploration permit in due course. NZOG will be operator of the new permit.

NZOG Exploration Portfolio
NZOG's portfolio now includes 9 permits, plus the permit application:

Permit	NZOG Stake
Taranaki Basin	
PMP 38158 Tui	12.5%
PML 38146 Kupe	15%
PEP 51311 Kaupokonui	90%
PEP 51988 Mangaa	100%
PEP 38491 Albacore	44%
PEP 51558 Parihaka	20%
PEP 38483 Bahamas	18.9%
PEP 51321 Kahurangi	18.9%
Canterbury Basin	
PEP 38259 Barque	40%
PEP 52717 Permit Application	40%
Relinquished	
PEP 38401 Hoki	10%

The Hoki permit, where NZOG had a 10% interest, was relinquished by the joint venture earlier this month.

Hoki-1 was the westernmost well ever drilled in offshore Taranaki. This prospect was recognised as high risk given its remote location relative to known oil source kitchens, but had it been successful, it would have opened up the prospectivity of the western part of the basin in a manner similar to the Tui discovery of 2003. In the event, the geological structure and reservoir character of the target formation in Hoki were very much as expected, but the absence of oil or gas has served to down-grade perceived prospectivity of the western part of the Taranaki Basin.

Overseas opportunities
New Zealand remains an attractive investment destination. However, the available opportunities going forward probably do not provide sufficient depth and breadth for a company of our size to be confident we can meet our growth objectives from New Zealand alone.

We have a goal of establishing one or two new core areas, in addition to offshore Taranaki.

During the past year NZOG continued to assess a range of potential offshore investments. These included corporate deals, asset purchases and exploration acreage.

Our very thorough screening process rejected most of these opportunities, generally because the prize was too small, or the risk too great. However, several overseas investment opportunities remain under active consideration and we remain hopeful of progressing one or more in the coming months.

Sticking to the Strategy
NZOG is in the fortunate position of being able to look years into the future and see ongoing revenue streams from Tui and Kupe. These cashflows underpin the company's business strategy, supporting our ability to pay dividends and to invest in new growth opportunities.

NZOG is pursuing growth off a solid base – optimising our existing assets and pursuing new opportunities.

Unfortunately, our exploration efforts this year did not yield commercial success, but that is part of the risk we take as an oil and gas explorer and producer. Of course, we undertake look-back reviews to evaluate our decision making. With each of these four wells, the critical technical risks identified pre-drill were in fact encountered and so the wells were unsuccessful.

Does this mean we should not have drilled them? No, because we could not have known the result without drilling and the pre-drilling assessment correctly identified these prospects, on a carefully risked basis, as being attractive drilling targets.

For both exploration and other investment opportunities, we have a continuous screening process that is working well. We are targeting opportunities that are robust and comfortably fit within our financial capability. NZOG has taken a careful, prudent approach, and will continue to do so.

Our criteria for investment remain the same:

- Proven hydrocarbon systems
- Quality business partners with technical skills and financial strength
- Suitably attractive fiscal regime
- Access to markets and infrastructure
- Manageable regulatory and political risk
- Manageable financial exposure
- Near term payback as opposed to long term horizons
- Future growth and upside potential

Within these definitions we continue to identify a range of potential investments and we are working hard to secure the best of them.

The underlying value of the company remains strong. This comes from our revenue producing assets of Kupe and Tui, our investments in Pike River and Pan Pacific Petroleum, our healthy cash balance and the potential upside from our exploration portfolio.

I can assure you that the company will continue to strive to create value and to have that value recognised.

David Salisbury
Chief Executive