ActivitiesReport

for the quarter ended 30 June 2010

Dear investor

It was a busy three month period for NZOG, against a backdrop of falling international sharemarkets and dismay over the BP oil spill in the Gulf of Mexico. That disaster demonstrated the need for health, safety and environmental performance to always be the number one priority in the petroleum industry.

The Kupe gas and oil field was in full production through the quarter, earning NZOG NZ$18.2m in revenue. A reserves review was completed, which saw the 2P (proved and probable) reserves increased substantially. At current prices, NZOG's share of the additional recoverable light oil, LPG and gas has a value of around NZ$100m. This further underlines the value of Kupe to NZOG.

The Tui SW-2 exploration well, drilled in May/June to the southwest of the producing Tui oilfield, discovered oil, but in non-commercial quantities. The rig then moved to the east of Tui to drill the Kahu-1 well. In July this well located the targeted Kahu valley feature but it was not reservoir quality. The results of both wells will be incorporated into ongoing studies and assessments of other prospects within the Tui permit.

Production from the Tui area oil fields slightly exceeded the revised target for the financial year ended 30 June, producing a total of 4.83 million barrels – NZOG's share 604,000 barrels. NZOG received NZ$13.1m in revenue from Tui in the June quarter.

In late June, it was identified that repairs were required to the artificial lift system for one of the Tui field's four producing wells, Pateke 3-H. The Operator is planning a work-over of the well later in 2010. In the meantime the well has been shut-in, which means some production will be deferred.

As you know, NZOG is always on the lookout for opportunities to expand its portfolio of assets. In June, NZOG agreed to pick up 20% of the large Parihaka permit (PEP 51558) in offshore Taranaki. NZOG has also made an application to Crown Minerals to secure a new permit in the Canterbury Basin.

A Taranaki regional seismic survey was successfully completed in May. Evaluation of this new data will give NZOG an advantage in assessing the prospectivity of the southern and western offshore Taranaki basin. NZOG is also in discussions with a number of companies regarding NZOG's farm-out of the Kaupokonui prospect.

In May, shareholders of Pike River Coal (PRC) agreed to a funding package that included a new equity issue and around $40m of debt from NZOG through convertible bonds. More details about Pike can be found on the back page of this report.

David Salisbury CEO
21 July 2010

Key Points

- **Kupe reserves increased**
- **Tui reaches FY2010 production forecast**
- **Drilling at Tui SW and Kahu**
- **Exploration portfolio increased**
- **Regional seismic programme completed**
- **Pike funding package completed**

Production

Kupe

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

Following the end of the commissioning period in March, the Kupe gas and oil field had a strong production performance during the June quarter.

In the three months to the end of June, Kupe produced 4.5 PJ of sales gas (NZOG's share 0.74 PJ), 18,500 tonnes of LPG (NZOG's share 2,780 tonnes) and 456,000 barrels of light oil (NZOG's share 68,400 barrels).

The sales gas was sold to Genesis Energy, NZOG's LPG was sold to Vector subsidiary On-Gas and the light oil was exported. NZOG's total revenue from Kupe product sales during the quarter was $NZ18.2m.

A comprehensive remodeling of Kupe reserves has been completed. This has resulted in a significant increase in the initial proved and probable (2P) reserves, as set out in the table.

	Pre-production Initial 2P Reserves	2010 Revision Initial 2P Reserves	Reserves Increase	% Increase
Sales Gas:	254	273	19	8
(PJ)				
NZOG share	**38**	**41**	**3**	
LPG:	1062	1114	52	5
(kilotonnes)				
NZOG share	**159**	**167**	**8**	
Light Oil:	14.7	18.6	3.9	27
(mmbbls)				
NZOG share	**2.2**	**2.8**	**0.6**	

Tui

Tui Area Oil Fields
(PMP 38158, NZOG interest 12.5%)
Tui production for the quarter was 978,000 barrels at an average rate of 10,750 barrels of oil per day. NZOG's share of that production was 122,000 barrels.

Total production for the financial year ended 30 June was 4.83 mmbbls, slightly ahead of the revised forecast of 4.8 mmbbls.

Forecast production for FY2011 is 2.8 mmbbls. This includes an allowance for the Pateke well to be shut-in until later this calendar year.

The Tui area oil fields have four producing wells – Tui 2-H, Tui 3-H, Amokura 2-H and Pateke 3-H. In late June, production performance from Pateke 3-H noticeably declined and it was identified that repairs were needed to the artificial lift system. A workover is required before the well resumes production. Subject to equipment and rig availability, this is expected later in 2010.

Investments

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. Recently it received final approval for a 5% stake in a Vietnam permit.

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

PIKE RIVER COAL

See back page.

Exploration

TARANAKI BASIN

Regional Seismic Programme
In May, the seismic vessel Reflect Resolution acquired for NZOG over 600km of new seismic lines across the offshore Taranaki Basin, tied into previous wells.

The new data 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.

The results will form a key basis for NZOG's exploration play definition and refinement across southern, central and western offshore Taranaki.

PMP 38158 (Tui), NZOG interest 12.5%
The Tui SW prospect was drilled in May/June. Tui SW-1 was plugged and abandoned following upper hole instability. The adjacent Tui SW-2 well encountered oil shows in the target sands but analysis showed that an economic oil accumulation was not present at that location. Tui SW-2 has been cased and suspended for future use as a gas injection well.

In late June, the Kan Tan IV drilling rig moved to the east of the Tui oil field to drill the Kahu-1 well. This well located the targeted Kahu valley feature but no significant hydrocarbons were found.

During the quarter, site surveys were also completed over three further potential drilling targets within the permit.

PEP 51311 (Kaupokonui), NZOG interest 100%
NZOG acquired this permit in the southern offshore Taranaki basin in January 2009. Evaluation of 500km of new 2D seismic data along with reprocessing of historic seismic data has resulted in the mapping of an extensive portfolio of prospects and leads within the permit.

The highest ranked prospect is Kaupokonui, a stacked series of Motueka coastal sands, with estimated mean prospective recoverable resources of 200+ million barrels of oil.

NZOG intends to reduce its 100% holding by attracting one or more partners prepared to commit to drilling at least one exploration well. Discussions have been initiated with interested parties. A preliminary well plan and budget for an exploration well have been obtained, and a site survey undertaken over the proposed Kaupokonui drilling location. A commitment is required by January 2011, to drill a well within the following 12 months.

PEP 51558 (Parihaka), NZOG interest 20%
In June, subject to final government approval, NZOG agreed to acquire Mighty River Power's 20% interest in this large offshore Taranaki permit, which enhances our core offshore Taranaki Basin position. The block includes a 1500 sq km 3D seismic survey acquired under a previous permit. Two unsuccessful wells have been drilled within the block, but several prospects and plays remain to be tested.

PEP 38491 (Albacore), NZOG interest 40%
Results from the unsuccessful Albacore-1 well drilled in December 2009 have been evaluated and focused mapping work is underway.

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 38401 (Hoki), NZOG interest 10%
The wildcat exploration well Hoki-1, drilled in March, did not intersect any significant hydrocarbons. No further technical work was carried out in the last quarter.

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.

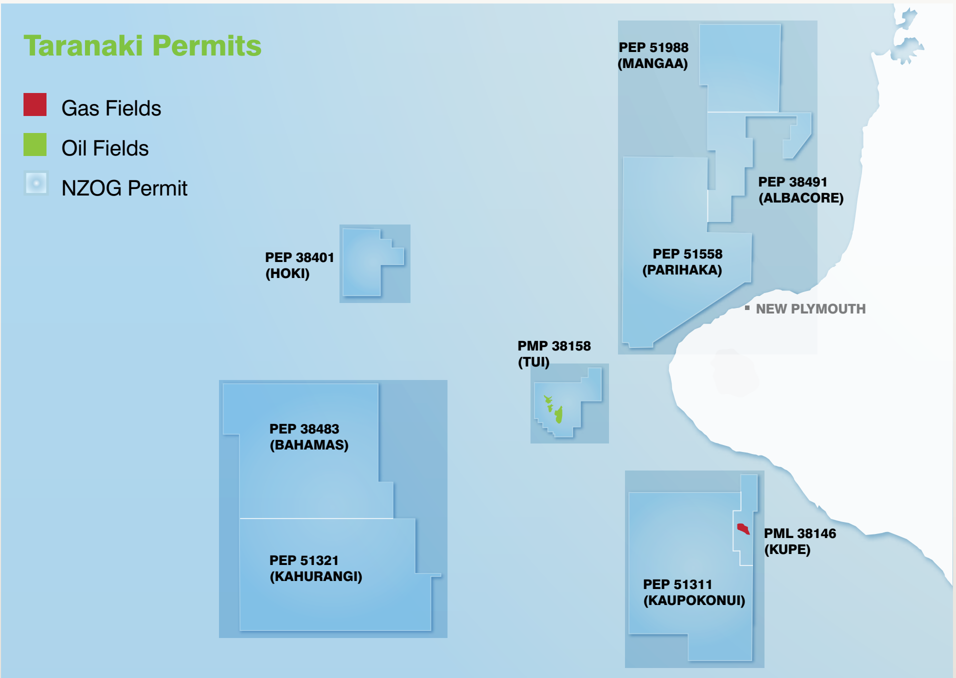
PEP 51321 (Kahurangi), NZOG interest 18.9%
In May, NZOG acquired 200km of 2D seismic data across this permit on behalf of AWE as Operator. Once processed, the data from this survey will be integrated with the existing data and any prospects and leads mapped.

CANTERBURY BASIN

PEP 38259 (Barque), NZOG interest 40%
This permit contains the Barque prospect along with 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 considered to be structurally similar to, but larger and more favourably located for oil and gas charge, than Galleon.

Under the permit conditions, the joint venture is required to make a commitment by 17 August 2010 to drill one well within the following 12 months, or the permit will be relinquished.

PIT (Priority In Time) Application
NZOG lodged a PIT application with Crown Minerals on 25 May for an area immediately to the north of PEP 38259. The application was not subject to any competing applications and is currently being processed by Crown Minerals.



Financial update

NZOG's operating revenue for the June quarter was NZ$31.3m. This was comprised of revenue from the sale of Tui oil (NZ$13.1m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$18.2m).

During the quarter short term financing provided to Pike River Coal Limited was repaid and NZOG participated in Pike's NZ$10 million placement and NZ$40 million rights issue to the extent of its existing 29.5% equity interest. NZOG also issued Pike with a new convertible bond facility for US$28.9 million with an interest rate of 10% pa.

At 30 June 2010, NZOG's cash balance was the equivalent of NZ$143m. NZ$63m has been drawn from a NZ$75m debt facility with Westpac, giving NZOG a net cash position of NZ$80m.

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

2010 New Zealand Petroleum Conference

The bi-ennial New Zealand Petroleum Conference is being held at Auckland's Sky City Conference Centre from 19-22 September. As a main sponsor, NZOG is pleased to be supporting the most significant New Zealand conference for the upstream petroleum sector.

Chief Executive David Salisbury will give a keynote address immediately following Energy Minister Gerry Brownlee on the opening morning. Around 500 delegates from New Zealand and overseas are expected to attend the conference.

TRANSFORMATION
2010 NEW ZEALAND PETROLEUM CONFERENCE
www.nzpetroleumconference.org.nz
19-22 SEPTEMBER 2010

Pike River

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

NZOG formed Pike River Coal in 1988, retained a 30% shareholding when it was floated in 2007, and has continued to support the mine through development and into initial production.

NZOG has contributed a total of NZ$85m in equity to PRC. At 30 June 2010, NZOG's shareholding in PRC had a market value of approximately NZ$105m. NZOG also has 17.3 million options in PRC and holds US$29m of debt through convertible bonds. NZOG earns an interest rate of 10% pa. on these bonds, which are repayable by March 2012, or can be converted to additional shares.

Pike River's construction and commissioning delays reflect a higher degree of project complexity than was originally anticipated. However, NZOG has commissioned its own technical and management reviews and believes that, despite a two year delay in the Pike River mine reaching full production, the fundamental value of the project remains intact. With the mine now almost fully developed, the key success factor is operational performance.

The original coal resource, reserves and production levels have not significantly changed. The forecast annual production rates of approximately 1 million tonnes per annum remain achievable and the coal remains a highly attractive product in the global market.

Costs for the Pike mine have increased above those listed in PRC's 2007 Prospectus. However, metallurgical coal prices have doubled over the same period. Accordingly, NZOG's expectation is that PRC's future net cash flows will be higher than originally projected.

NZOG considers that these anticipated cash flows and gross margins have not yet been fully priced into PRC's market capitalisation.

While the Pike River mine faces some further operational challenges before it achieves its potential, NZOG considers that it has a positive long term outlook.

NZOG has previously stated that when it is judged to be in the best interests of NZOG shareholders, NZOG will look to divest itself of its holding in PRC and redeploy the capital in its core business in the oil and gas sector. At this point no decision to sell has been made and any sales process, if initiated, is likely to take up to 9 months.

In the meantime, NZOG is committed to its investment in PRC and believes that PRC is taking the operational decisions necessary to get the mine operating at full production.

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

NZOG 2010 Annual Meeting

This year's Annual Meeting will be held in Auckland on Wednesday 27 October. The following day there will be investor briefings in Wellington and Christchurch.

Annual Meeting
Date: Wednesday 27 October 2010
Time: 10.30am
Venue: Ballrooms 1&2, Crowne Plaza Hotel, 128 Albert St, Auckland.

Wellington Investor Briefing
Date: Thursday 28 October 2010
Time: 10.00am
Venue: Lambton Rooms 1&2, Intercontinental Hotel, 2 Grey St, Wellington.

Christchurch Investor Briefing
Date: Thursday 28 October 2010
Time: 5.00pm
Venue: Conference Room, Christchurch Town Hall, Kilmore St, Christchurch.

The Notice of Meeting, including details of any resolutions, a proxy voting form and an RSVP card, will be sent to shareholders in September.

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