ActivitiesReport

for the quarter ended 30 June 2011

Dear Investor

NZOG has taken significant steps towards achieving its strategic goals. It is now an internationally focused company, with three core areas of interest – New Zealand, Tunisia and Indonesia.

In June, we announced that we had secured attractive exploration acreage in the Mediterranean Sea's Gulf of Gabes, off the coast of Tunisia.

NZOG is setting up an office in Tunis to manage the Diodore permit and pursue further opportunities. We have established good relationships with the Tunisian authorities and firmly believe that the country's move towards more open democracy enhances its attractiveness as a place to do business.

Over the past six months we have also built a strategic alliance with an Indonesian-focused company, Bukit Energy, and together we are pursuing a number of exciting opportunities, primarily in onshore Sumatra.

As with Tunisia, this is a proven oil and gas region with promising, low cost entry points for a mid-sized company like NZOG.

In New Zealand, we continue to investigate drilling options for our exploration prospect off the South Taranaki coast. We are hopeful that a suitable drilling rig can be secured to allow an exploration well to be drilled this coming summer.

Our producing assets, Kupe and Tui, continued to provide strong revenues through the period. Coincidentally, both Tui and Kupe had issues with gas compressor units which temporarily affected production levels. In both cases repairs have been successfully completed.

As this report goes to print, we have announced the results of reserves review work undertaken by AWE as operator of the Tui Area Oil Fields. The preliminary work has indicated that the gross initial developed 2P reserves recoverable from the existing four well development of the fields will be reduced from the previously reported 50.5 million barrels to between 40 and 42 million barrels. This is obviously disappointing. While the Tui Area Oil Fields development has been spectacularly successful, the change in reserves estimate reflects the challenges and risks of the oil exploration and production business.

The Pike River Royal Commission of Inquiry has commenced its hearings. NZOG provided written submissions but was not asked to appear at this stage. In addition to efforts to stabilise the mine, the Receivers continue their work to recoup value from the assets.

Last month I announced that I would be leaving NZOG at the end of 2011. At that point I will have served NZOG as CEO for almost 5 years, through a turbulent period that has had both successes and disappointments; achievements to celebrate and one significant tragedy. Our family has decided that in 2012 it will be time for a change of direction for us personally.

As far as NZOG is concerned, I know that the Board and management team is committed to carrying on with the current business strategy of building an expanded New Zealand and international presence by pursuing sensible growth opportunities in the oil and gas sector. I am confident that my six months notice period will allow for a smooth transition and no loss of focus.

David Salisbury CEO
25 July 2011

Key Points

- **Tunisian permit granted**
- **Indonesian alliance formed**
- **CEO gives six months notice**
- **Tui reserves reduction**

Production

Kupe

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

In the three months to the end of June, Kupe produced 4.33 PJ of sales gas (NZOG's allocation 0.64 PJ), 17,350 tonnes of LPG (NZOG's share 2,600 tonnes) and 444,000 barrels of light oil (NZOG's share 66,500 barrels).

Total production for the year ended June was 17.5 PJ (NZOG's share 2.63 PJ), almost 75,000 tonnes of LPG (NZOG's share 11,200 tonnes) and 1.84 million barrels of oil (NZOG's share 276,000 barrels).

NZOG's revenue from Kupe in the quarter was NZ$18.6m.

Production levels for the quarter were slightly below expectations. A motor shaft on a gas compressor unit failed in early March. As a result for much of the period daily gas production was limited to 50 terajoules per day. A 5 day shutdown was also required in early June to replace some gas dehydration equipment. However, from late June production was able to increase to 60 TJ a day and with the arrival of replacement parts for the gas compressor, the full plant capacity of 70 TJ a day was restored in mid-July.

Tui

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

Total oil production at Tui for the June quarter was just under 685,000 barrels of oil, at an average rate of 7,200 barrels per day. NZOG's share of the oil production was 85,600 barrels. Total production for the year ended June was 2,807,000 barrels, closely matching the production forecast of 2.8 million barrels.

Well performance was generally good during the quarter, but production was affected on several occasions by the need to make repairs to both gas lift compressors. However, following repairs to gas lift compressor B, gas lift injection rates have improved, lifting oil production by 300-400 barrels per day.

AWE, as Operator of the Tui Joint Venture, has advised that preliminary work completed on the Tui Area Oil Fields indicates that the gross initial developed 2P reserves recoverable from the existing four well development of the fields will be reduced from the previously reported 50.5 million barrels to between 40 and 42 million barrels. This would leave gross remaining developed 2P reserves as at 30 June 2011 of between 9 and 11 million barrels and would represent a reduction of between 1.1 to 1.3 million barrels net to NZOG. An independent review of the reserves estimate is being undertaken by RPS Energy Pty Ltd (RPS). The RPS review is anticipated by AWE to be completed in early August 2011. A finalised 2P reserves estimate will be advised after the Joint Venture and RPS review has been completed.

AWE's evaluation has also identified possible additional volumes of oil not accessed by the current production wells in the Tui fields. To recover this oil additional wells or side tracks of existing wells will be required. Further work is being progressed that may mature these opportunities into a firm project that would add back a portion of the reserves reduction.

NZOG's revenue from Tui in the quarter was NZ$15.1m. There were two tanker shipments totalling almost 790,000 barrels (NZOG's share 99,000 barrels), with approximately 313,000 barrels of oil in stock (NZOG's share 39,000 barrels) at the end of the quarter.

NZOG Production

Product	April - June 2011	Year to end June 2011
Kupe:		
Kupe sales gas	0.64 petajoules	2.63 petajoules
Kupe LPG	2,600 tonnes	11,200 tonnes
Kupe light oil	66,500 barrels	276,000 barrels
Tui:		
Tui oil	85,600 barrels	350,000 barrels

Exploration

TARANAKI BASIN

PEP 51311
NZOG interest 90%

Previously known as Kaupokonui, we are looking to rename the large prospect in this permit following discussions with local iwi, Nga Ruahine.

The prospect comprises several vertically-stacked potential reservoir sands with recoverable resources (un-risked) in excess of 200 million barrels of oil. Seismic modelling has upgraded the chance of success through indications of a small gas cap on the main postulated oil column.

The 'drill or drop' date has been extended by NZ Petroleum and Minerals until January 2012, but NZOG hopes to drill as early as this summer and is actively investigating drilling rig options. NZOG has a farm-in agreement with Raisama Ltd, an ASX-listed resource exploration and development company. Raisama will earn a 10% interest in the permit by contributing 20% of the cost of the well. NZOG is continuing efforts 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. Undrilled prospects are 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, possibly in 2013.

PEP 51558 (Kanuka)
NZOG interest 50%

NZOG and Todd Energy have renamed this northern offshore Taranaki Basin permit "Kanuka" and Todd Energy has taken on operatorship, following the withdrawal of AWE and Mitsui. A large 3D seismic survey acquired by a previous venture in 2007 will be reprocessed 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. Technical studies comprising the work programme for the first 24 months of the permit term are being brought to conclusion and will form the basis for decisions on the next steps.

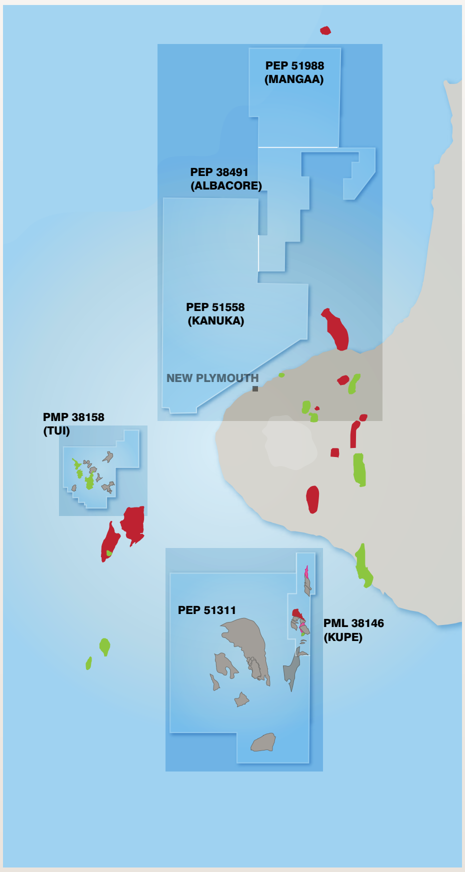
CANTERBURY BASIN

PEP 38259 (Barque)
NZOG interest 40%

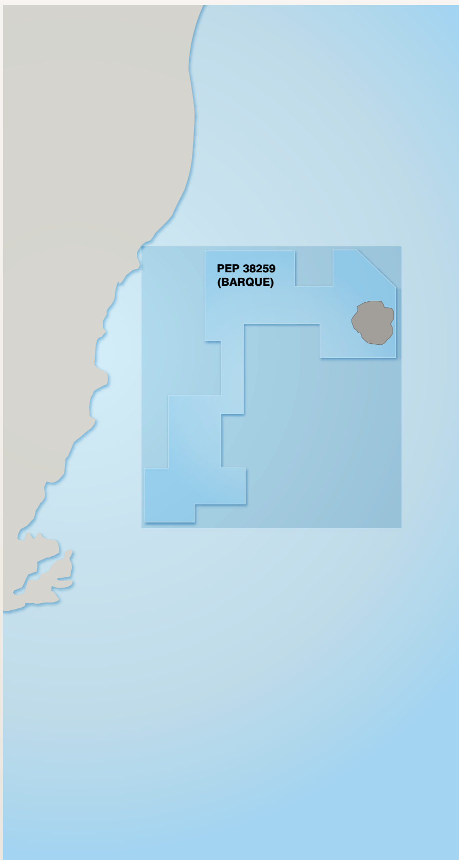
This permit contains the Barque gas-condensate prospect. The joint venture is still waiting for a government response to a change of conditions application, which would allow sufficient time to evaluate the cost of drilling and developing the prospect and to investigate the availability of a suitable rig.

NZOG has withdrawn from an application for a block immediately to the north of PEP 38259.

Taranaki Basin Permits



Canterbury Basin Permits



Expanded Horizons

Over the last couple of years, NZOG has talked about a "two-pronged" business strategy: maximising value extraction from our existing portfolio, while pursuing new value-adding opportunities. That strategy remains firmly in place.

NZOG is generating excellent cash flows from our interests in the Kupe and Tui fields, which provides the foundation for growth.

We have some promising New Zealand exploration prospects. However, New Zealand opportunities are limited, and NZOG has increasingly focused on identifying suitable international new ventures with a resolve to further diversify our portfolio and enhance growth potential.

Our clearly stated intention has been to establish one or two new core areas outside of New Zealand. Those areas have now been identified – Tunisia and Indonesia.

Tunisia

Why Tunisia?
During NZOG's search for suitable overseas opportunities, our attention has returned repeatedly to Tunisia due to its combination of good prospectivity, established exploration and production activity levels, reasonable fiscal terms, and relative ease of doing business.

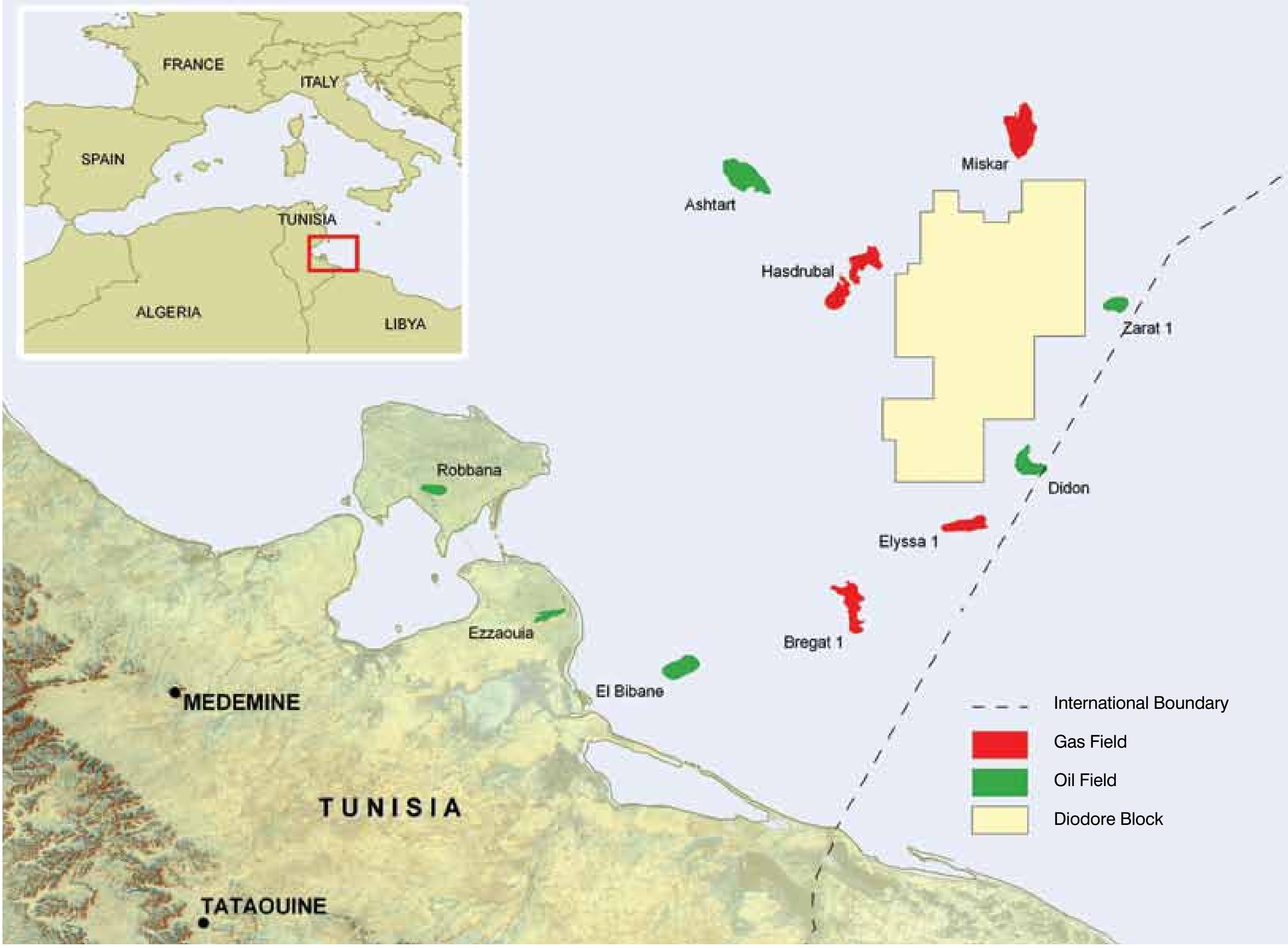
What is the Diodore Permit?
Through our screening process we identified an attractive overlooked area of the Gulf of Gabes. The Diodore permit is surrounded by discovered and producing oil and gas fields and we have already identified a sizeable prospect within the permit.

What are NZOG's commitments?

A two year prospecting permit has been awarded, with priority rights to apply for a subsequent four year exploration permit. NZOG's work programme under the prospecting permit requires the acquisition of 350km of new 2D seismic data. We expect to shoot this seismic later this year and be in a position to commit to an exploration well in 2012. We anticipate bringing in at least one other partner ahead of drilling, to manage our financial exposure.

What are the future plans?
The Diodore permit provides an initial foothold in Tunisia, allowing us to focus on identifying further opportunities for exploration or asset acquisition. We are opening a Tunis office and have appointed an experienced explorationist to staff the office.

NZOG hopes to build a significant Tunisian portfolio to complement its New Zealand holdings.



Indonesia

Why Indonesia?
Indonesia has a long history as a significant oil and gas producer. However, its basins remain underexplored by western standards. Indonesia's contract terms and business climate have been improving over the last decade as it looks to encourage petroleum activity.

Earlier this year NZOG was outbid when a bundle of assets in Indonesia were put up for sale – but we have remained actively engaged in looking for other opportunities.

Who is Bukit Energy?
Bukit is a new company put together by experienced oilmen with a deep understanding of Indonesia. CEO Jerry Sykora was formerly in senior management roles at Talisman Energy and Nexen, with responsibilities for Indonesian activity. Bukit has secured private funding of US$16m and has a strategic alliance with NZOG to identify and secure Indonesian opportunities. NZOG's introduction to Bukit was through one of our northern hemisphere "scouts' who himself is ex-Talisman – demonstrating the value of having strong networks.

What are NZOG's commitments?
Seven initial opportunities were identified; all but one of them in onshore Sumatra. This highly productive region offers open acreage, regular bid rounds and farm-in opportunities.

As a result of the assessments completed to date, two investment decisions have been taken. The first was an application for a Joint Study Agreement (JSA) over open acreage in northern Sumatra, which is expected to be awarded shortly. The second has seen NZOG and Bukit jointly make a farm-in offer to the operator of an attractive permit in central Sumatra. Other opportunities remain under assessment.

What are the future plans?
NZOG is working with Bukit Energy to target opportunities that are: in proven basins; generally onshore therefore low cost; close to existing infrastructure; and more likely to be oil than gas.

NZOG and Bukit will use modern methods including 3D seismic acquisition and apply high quality technical assessment to identify a portfolio of low risk opportunities.

NZOG hopes to build a significant Indonesian portfolio to complement its New Zealand holdings.

Pike River

The Royal Commission of Inquiry commenced its hearings in July. NZOG provided a comprehensive paper on the conception and development of the Pike River Coal mine project up to the separation of Pike River Coal Ltd (PRCL) from NZOG in 2007. Several witness statements were also provided addressing more recent matters and events. NZOG was not asked to appear at the first phase of the Inquiry. If requested, NZOG is fully prepared to appear at future phases of the Inquiry to discuss anything the Commission may think is of relevance to their deliberations.

There are some common misconceptions about the relationship between NZOG and PRCL since PRCL was floated in 2007 and NZOG became a minority shareholder. NZOG did not control PRCL or its operations and NZOG's rights and influence as a shareholder were generally no greater than any other shareholder. This situation is a matter of regulation by the Companies Act, Securities Act and NZX Listing Rules. Our post-float relationship with PRCL is addressed in detail in our witness statements.

As a secured creditor, NZOG was asked by PRCL to appoint the Receivers and gets regular progress reports from them. The Receivers are making good progress with their efforts to stabilise the atmosphere within the mine's access tunnel. NZOG shares the hopes of many others that a successful outcome of these efforts will allow a recovery plan to be drawn up, and if feasible and safe to do so, an attempt made to recover the men's remains. The Receivers have also indicated that they are engaged in constructive discussions with a number of companies interested in buying the mine.

Financial update

NZOG's operating revenue for the June quarter was NZ$33.7m. This included revenue from the sale of Tui oil (NZ$15.1m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$18.6m).

NZOG's total revenue from Kupe for the financial year ended 30 June 2011 was $NZ66.3m; from Tui revenue for the year was NZ$40.2m.

At 30 June 2011, NZOG's cash balance was the equivalent of NZ$149.4m, with cash holdings held in both NZ and US dollar accounts.

NZOG has agreed a repayment schedule for its debt facility with Westpac. The balance borrowed currently stands at NZ$63.3m and this will be repaid in full by March 2015.

NZOG's net cash position as at 30 June 2011 was NZ$86.1m.

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

2011 Annual Meeting

The Annual Meeting will be held on Wednesday 26 October 2011.

The venue is the Intercontinental Hotel in Wellington, with the meeting commencing at 10.30am. The Annual Meeting will be followed by investor briefings in Auckland and Christchurch.

Notice of Meeting

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

Annual Meeting

Date: Wednesday 26 October 2011

Time: 10.30am

Venue: Intercontinental Hotel, 2 Grey St, Wellington.

Auckland Investor Briefing

Date: Thursday 27 October 2011

Time: 10.00am

Venue: Crowne Plaza Hotel, 128 Albert St, Auckland.

Christchurch Investor Briefing

Date: Thursday 27 October 2011

Time: 5.00pm

Venue: The George Hotel, 50 Park Terrace, Christchurch.

Share Buy-Back

A share buy-back scheme was announced by NZOG in September 2010, and was in place up until 30 June 2011. This involved a broker purchasing shares, within prescribed limits, on NZOG's behalf through the NZX market. The shares acquired were immediately cancelled.

In the three months to 30 June 2011, 610,489 ordinary shares were acquired and cancelled under the share buy-back scheme; at an average price of NZ95c per share and a total cost (including brokerage) of NZ$581,801.

The total number shares acquired and cancelled under the share buyback was 2,584,998; at an average price of NZ97c per share and a total cost (including brokerage) of NZ$2,517,124.

NZOG did not make any direct purchases from shareholders and the identity of the seller or sellers of the securities is not known to NZOG.

For further information please contact:

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