ShareholderReport

2011

Chairman's Message

Despite a number of significant challenges, NZOG ended the 2011 financial year in a very sound position and with an expanded outlook overall for its oil and gas operations.

There was a tragic loss of lives following explosions at the Pike River mine in November 2010. For NZOG this had a flow-on impact on our investment in Pike River Coal Ltd (PRCL). Provisions for the resulting losses have been included in the financial statements but the underlying operating performance of our oil and gas interests was strong.

COMPANY OPERATIONS

The Kupe and Tui projects combined provided the company with NZ$106.5 million in revenues for the financial year, translating into NZ$52.7m in operating profits.

Kupe was the main contributor and stands out as a core long-term earnings base for the company. With respect to the Tui project, additional operating cost was incurred for rectifying problems with the Pateke producer well, which was successfully brought back into production in October 2010. Additionally, in July 2011 the operator of the Tui joint venture advised that it had reduced the estimated initial proved and probable (2P) developed reserves in the Tui fields and this is likely to curtail production beyond 2019. However, there are other, undrilled, prospects within the production licence area and a discovery in any one of these could add to existing reserves.

Elsewhere on the exploration front, the company's most advanced prospect is in permit 51311 in offshore Taranaki, for which assessment of drilling options is under active consideration. The permit lies between the Kupe and Maari fields and the proposed well will penetrate a stacked series of Miocene sands. There is potential for a sizeable discovery. NZOG holds a 90% interest in PEP 51311 but is amenable to farming down its equity to around 50%.

As an adjunct to these and other New Zealand activities, which still form the core of NZOG's operations, the company has now acquired interests overseas, through the award of a prospecting permit in offshore Tunisia and a joint study area in onshore Indonesia (Sumatra). In Tunisia the Diodore permit encompasses the Alyane prospect over which it is intended to acquire new seismic data before the end of calendar 2011. NZOG was successful in obtaining this area 100% and will look to have a partner join it ahead of drilling this very interesting prospect.

FINANCIAL RESULT

The company sustained a loss of NZ$75.9m for the financial year to 30 June 2011. The overwhelming adverse factor leading to this result was a provision of NZ$98.9m for PRCL related provisions and losses. If this loss provision and unrealised foreign exchange losses are excluded, then NZOG would have recorded a net profit after tax for the year of NZ$30.6m.

Given that the underlying performance of the company was sound, particularly in the second half of the year, and with a positive outlook, the Board determined that a fully imputed annual dividend of 2 cents per share should be offered to shareholders. A Dividend Reinvestment Plan is available to New Zealand and Australian resident shareholders who want to take all or part of their dividend in additional shares.

MANAGEMENT

The recruitment process to select a new chief executive for NZOG is well under way, following David Salisbury's decision to leave the position on 29 December 2011.

The new CEO will be supported by the company's dedicated executive management team which has been built up over the past few years and a smooth transition is anticipated.

OUTLOOK

Right now what you have in NZOG is a financially stable company which continues to generate profits from the Tui and Kupe projects and which holds within its exploration portfolio candidates for drilling in Taranaki and, I expect, at Diodore in Tunisia. The company also has the financial capacity and intent to move into new project areas, both in exploration and reserves development, to enhance future profitability.

Tony Radford
Chairman

CEO's Review

In last year's Shareholder Report, I stated that NZOG was working hard to implement a two-pronged business strategy: to manage and maximise the value of our existing asset portfolio; whilst securing new value-adding business opportunities.

It has taken time to find the right investments, but we have now taken significant steps towards diversifying our portfolio and establishing new core areas of business.

NZOG is generating good cash flows from our interests in the Kupe and Tui fields which both lie in offshore Taranaki. NZOG has a portfolio of opportunities in New Zealand and resulting from a systematic screening of suitable international new ventures we have identified Tunisia and Indonesia as our new areas of interest.

While we have focussed on managing our existing assets and diversification by securing new growth opportunities, we have also had to address the impact of the Pike River mine tragedy.

PIKE RIVER

Here at NZOG we watched, along with the rest of New Zealand and others around the world, as the tragic events at Pike River unfolded in November 2010. Within days of the first explosion, the decision was taken by NZOG to provide a $12m loan to Pike River Coal Ltd (PRCL), so that the mine staff could be paid and the rescue effort could be supported.

Subsequently the situation deteriorated with further explosions, fire and the confirmed loss of 29 lives. There was a great deal of uncertainty about the mine's future and PRCL advised that it was facing insolvency. Receivers were appointed by NZOG at the request of PRCL's directors. NZOG's $12m loan has largely funded the receivership to date, including paying mine employees their statutory entitlements, stabilising the mine atmosphere and undertaking a sales process.

The Pike River Royal Commission of Inquiry has commenced its hearings. NZOG provided written statements but was not asked to appear at the first two phases of hearings. This is not surprising. After PRCL was publicly listed in 2007, NZOG was a minority shareholder. As required by law, NZOG neither controlled nor managed PRCL; its rights and influences as a shareholder were generally no greater than any other shareholder.

NZOG's annual accounts as at 30 June 2011 record its total secured PRCL debt as $51.5 million and its total unsecured PRCL debt as $14.6 million. The Receivers are continuing with the mine stabilisation, the sales process and insurance claims. In preparing the annual accounts NZOG has concluded that it can reasonably expect to recover the secured debt and no impairment has been taken against this secured debt. Recovery of the unsecured debt is also possible, but less certain. Therefore an impairment has been taken against this unsecured debt and also against NZOG's shareholding, which has a book value of $77.1 million.

PRODUCTION

Operationally it was a good year, with NZOG's two producing assets – Kupe and Tui – providing more than NZ$100m in revenue during the financial year.

Tui

Tui production for the year ended 30 June 2011 was slightly over forecast, at 2.81 million barrels (mmbbls). NZOG's 12.5% share of production was just over 350,000 barrels.

NZOG's share of Tui oil sales was 321,400 barrels, providing NZ$40.14m in revenue.

In June 2011, the Tui operator, AWE, announced a preliminary reserves reduction. This is being reviewed but suggests a revised estimate of the initial proven and probable (2P) development reserves to between 40 and 42 mmbbls.

The reduction in reserves is obviously disappointing but does not fall outside the range of probabilities previously identified. There had been a 90% confidence level (P90) that 40 mmbbls would be recovered and a 50% confidence level (P50) that 50 mmbbls would be recovered. The P50 has now moved closer to the P90 estimate.

The impact on NZOG is certainly significant but should not be overstated. It amounts to approximately a 10% reduction in NZOG's total oil and gas reserves; and a 2% reduction in NZOG's expected production in the 2012 financial year.

Kupe

Kupe has cemented its place as NZOG's most significant revenue source.

For the 2011 financial year, NZOG's 15% share of production amounted to 2.63 PJ of sales gas, 276,000 barrels of light oil and 11,200 tonnes of LPG. NZOG's revenue from the three Kupe products was NZ$66.33m.

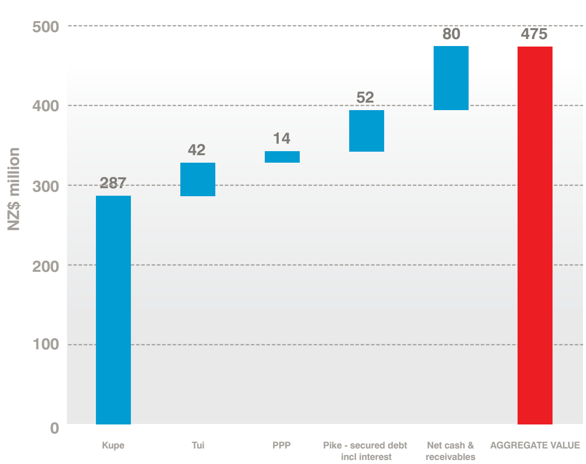
CEO's review

The Kupe field and the three production wells performed extremely well during the year. The latest reserves review undertaken by the Operator, Origin Energy, concluded that there should be no change to the estimate of initial 2P reserves that was increased in July 2010.

Total production for the year was slightly below expectations, with production limits imposed from March 2011 due to faults with the gas compressor units. Replacement parts were installed and full plant capacity was restored in mid-July 2011.

Kupe is NZOG's single biggest asset, as shown by this graph breaking down NZOG's core asset value.

NZOG ASSET VALUE AS AT 1 SEPTEMBER 2011



Assumptions: Broker average discount rate, forward curve for oil and exchange rates, broker average gas and LPG prices, PRCL secured debt and interest recovered, PPP valued at market, 2.5% pa inflation, 2P Reserves at Kupe and estimated 41mmbbls gross initial 2P reserves for Tui. Further upside potential from exploration and Pike unsecured debt/equity recovery not included.

NEW ZEALAND EXPLORATION

NZOG is involved in one permit in the Canterbury Basin and has a strong presence in the northern region of the offshore Taranaki Basin. The prospectivity of these permits continues to be assessed. There is also further exploration potential within the Tui and Kupe permits. However, the most advanced opportunity lies in our permit PEP 51311 in the southern offshore Taranaki basin, to the south and west of Kupe.

Here NZOG has identified a stacked series of Miocene coastal sands, with estimates of mean prospective resources in excess of 200 mmbbls of oil. During the year NZOG worked to bring the prospect – now named Kakapo – to drill-ready status.

Australian listed resource company, Raisama Ltd, has come in as a joint venture partner. Raisama will get a 10% stake in the permit in return for paying 20% of the cost (with a cap) of the Kakapo-1 well. Other companies are reviewing detailed data as NZOG looks for an additional joint venture partner and targets an equity level of about 50%.

The 'drill or drop' commitment deadline for this permit has been extended by the Government to January 2012. Assessment of possible drilling rig options is ongoing.

EXPANDED HORIZONS

A major discovery at Kakapo would be transformational for NZOG. However, this is exploration drilling. We rank this prospect very highly, but the historical rate of commercial success in offshore Taranaki is around 1 in every 10 wells.

We have to accept that New Zealand is a hard place to find commercial quantities of oil and gas, and that the available opportunities for NZOG may not be sufficient to be confident we can meet our growth objectives from New Zealand alone.

Since 2008 we have been looking further afield. We have examined a range of opportunities, but found most of them had too much geological risk or were unattractive financially. However, through the screening process we found ourselves focusing on two particular areas of interest – Tunisia and Indonesia.

Tunisia

We were attracted to Tunisia due to its combination of good prospectivity, established exploration and production activity, reasonable fiscal terms, and relative ease of doing business. The move towards more open democracy in Tunisia enhances its attractiveness as a place to invest.

Through our networks we were able to identify available acreage in a productive basin. The Diodore permit that we acquired in June 2011 is surrounded by discovered and producing oil and gas fields and from the existing data we have already identified a sizeable prospect within the permit. We expect to conduct a seismic survey before the end of 2011 and work the prospect up to drillable status rapidly thereafter.

Diodore is just the first step and we continue to actively pursue further opportunities in Tunisia.

Indonesia

Indonesia has a long oil and gas history but remains underexplored by western standards. In recent years the contract terms and business climate have improved considerably. However, to succeed in Indonesia it is necessary to have good local knowledge and contacts, which is why NZOG has established a strategic relationship with Bukit Energy, a new company put together by experienced oil professionals with a deep understanding of Indonesia.

A large portfolio of opportunities has been identified and reviewed, most of them in onshore Sumatra. This highly productive region offers a variety of opportunities, including open acreage, regular bid rounds and farm-in possibilities.

The first opportunity has been secured – a Joint Study Agreement (JSA) in northern Sumatra. Other opportunities in Indonesia are under active assessment.

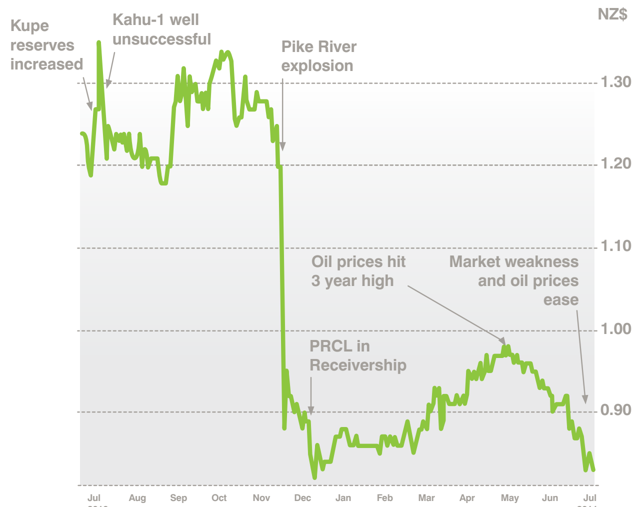
INVESTING IN GROWTH

NZOG is committed to a clear strategy and is taking positive steps towards achieving its strategic goals.

We are investing in growth, which does have a cost. Our total general and administration costs for the financial year were NZ$11.1m. This headline number needs to be broken down to really understand our expenditure. It includes a $500,000 donation to the Pike River Disaster Relief Trust, and another $300,000 in Pike River related expenditure. Then there are the regulatory and communication costs associated with being a publicly listed company, which are more than $1m. A significant proportion of the remaining expenditure was directly or indirectly (through staff time) spent on identifying and evaluating new investment opportunities.

The cost of managing our existing oil and gas assets was around $5m, or less than 5% of the revenue earnt from those assets.

NZOG SHARE PRICE IN FY2011 - Impacted by major events



The last financial year was undeniably a tough one for NZOG. The Pike River tragedy, the Tui reserves reduction and global economic events severely impacted on our share price. However, NZOG has a strong balance sheet and continues with its strategy to pursue sensible growth opportunities in the oil and gas sector, both at home and abroad.

We were already taking steps to broaden our portfolio to lessen the impact of one-off events and we are now making significant progress with that diversification. I am hopeful that there will be a number of milestones achieved before my departure at the end of 2011 and I know the Board and management are committed to carrying the current strategy forward aggressively.

David Salisbury
Chief Executive

Reserves and Forecasts

NZOG Reserves

Proven and Probable (2P) Oil & Gas Reserves as at 30 June 2011	Oil & Condensate (million barrels)	Natural Gas (petajoules)	LPG (kilotonnes)	Million Barrels of Oil Equivalent*
Tui	2.4			2.4
Kupe	2.4	36.8	151	9.6
Total				**12.0**

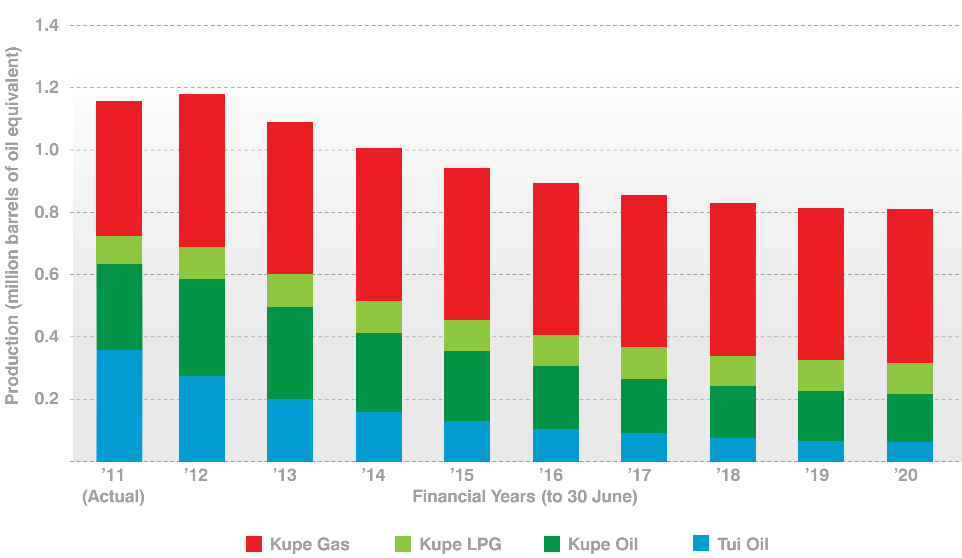
**Million barrels of oil equivalent has been calculated as the total oil equivalent of the oil, condensate/light oil, natural gas and LPG figures, using conversion factors consistent with Society of Petroleum Engineers (SPE) guidelines.*

Proven reserves are the estimated quantities of oil and gas which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs, under existing economic and operating conditions. Probable reserves are defined as those which have a 50% chance or better of being technically and economically producible.

Oil and gas reserves are reported as at 30 June 2011, and in accordance with Section 10.11 of the NZX Listing Rules. This Reserves Statement has been compiled by NZOG's Exploration Manager, Mac Beggs (who has a PhD in geological sciences from the University of California), and accurately reflects information supplied by the respective joint venture Operators.

Subsequent to the end of the financial year, the Tui Operator, AWE, issued a preliminary reserves review. This put the initial proven and probable (2P) developed Tui reserves at 40 to 42 mmbbls. This range is being independently assessed but as at 1 September 2011 suggests that NZOG's remaining Tui 2P reserves are approximately 1.2 mmbbls.

NZOG PRODUCTION: ACTUAL AND FORECAST



Source: Production forecasts have been derived from information provided by the Tui and Kupe Operators. Barrels of oil equivalent calculations have been made consistent with Society of Petroleum Engineers (SPE) guidelines.

Expanded Horizons

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

We also 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 our 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

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.

Through our screening process we identified an attractive and available area of the Gulf of Gabes. The Diodore permit acquired in June 2011 is surrounded by discovered and producing oil and gas fields and we have already identified a sizeable prospect within the permit.

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 in 2011 and to 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.

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

NZOG's target is to build a significant Tunisian portfolio to complement our New Zealand holdings.

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.

Early in 2011 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.

We have formed a strategic relationship with Bukit Energy, a new company put together by experienced oil professionals with a deep understanding of Indonesia.

Bukit has secured private funding of US$16m and is working with NZOG to identify and secure Indonesian opportunities. NZOG's introduction to Bukit was through one of our northern hemisphere "scouts" – demonstrating the value of having strong networks.

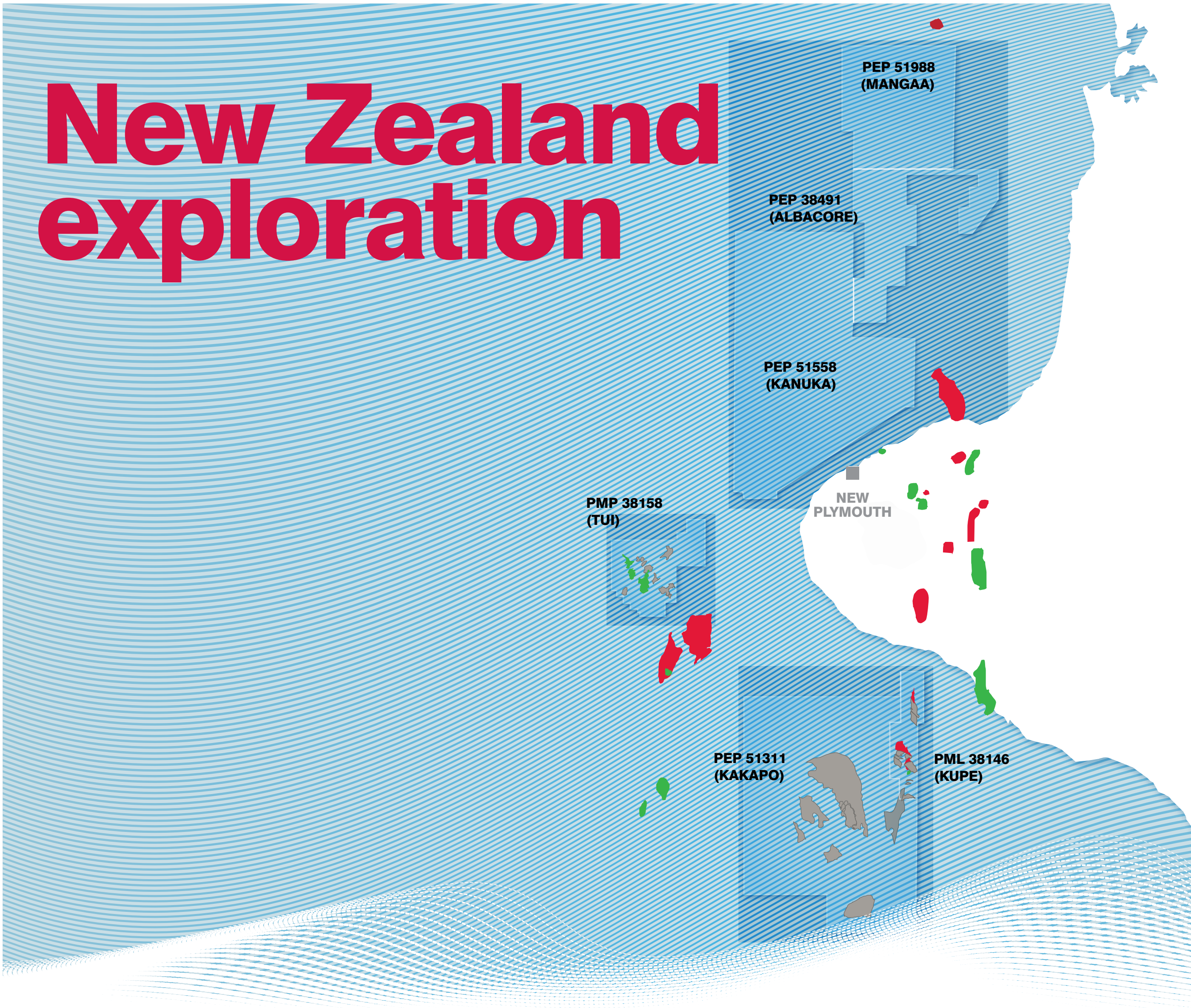
NZOG is targeting Indonesian opportunities that are: in proven basins; generally onshore therefore low cost; close to existing infrastructure; and more likely to be oil than gas. We will use modern methods including 3D seismic acquisition and apply high quality technical assessment to identify a portfolio of low risk investments.

As a result of the assessments completed to date, a number of opportunities are being pursued. An application for a Joint Study Agreement (JSA) over open acreage in northern Sumatra was awarded in August 2011. The block is in close proximity to a number of large oil and gas fields. Following a 6 month study period to complete a thorough review of the prospectivity of the block, the JSA provides a right of first refusal for any subsequent allocation of an exploration permit.

Farm-in offers have also been made for two permits in Sumatra. Other opportunities remain under assessment.

NZOG's target is to build a significant Indonesian portfolio to complement our New Zealand holdings.

New Zealand exploration



NZOG remains committed to exploration in New Zealand as a key way of growing the company. We continued to work our holdings of New Zealand permits during the year.

TARANAKI BASIN

PEP 51311 (Kakapo)
NZOG 90% (Operator), Raisama 10%

The Kakapo oil prospect (previously called Kaupokonui) is almost ready to drill and NZOG is investigating possible drilling rig options.

The prospect is a stacked series of Miocene coastal sands, which are laterally truncated and prognosed to be sealed by canyons filled with non-reservoir facies rock types. It is potentially a very significant field - estimates of mean prospective resources are over 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.

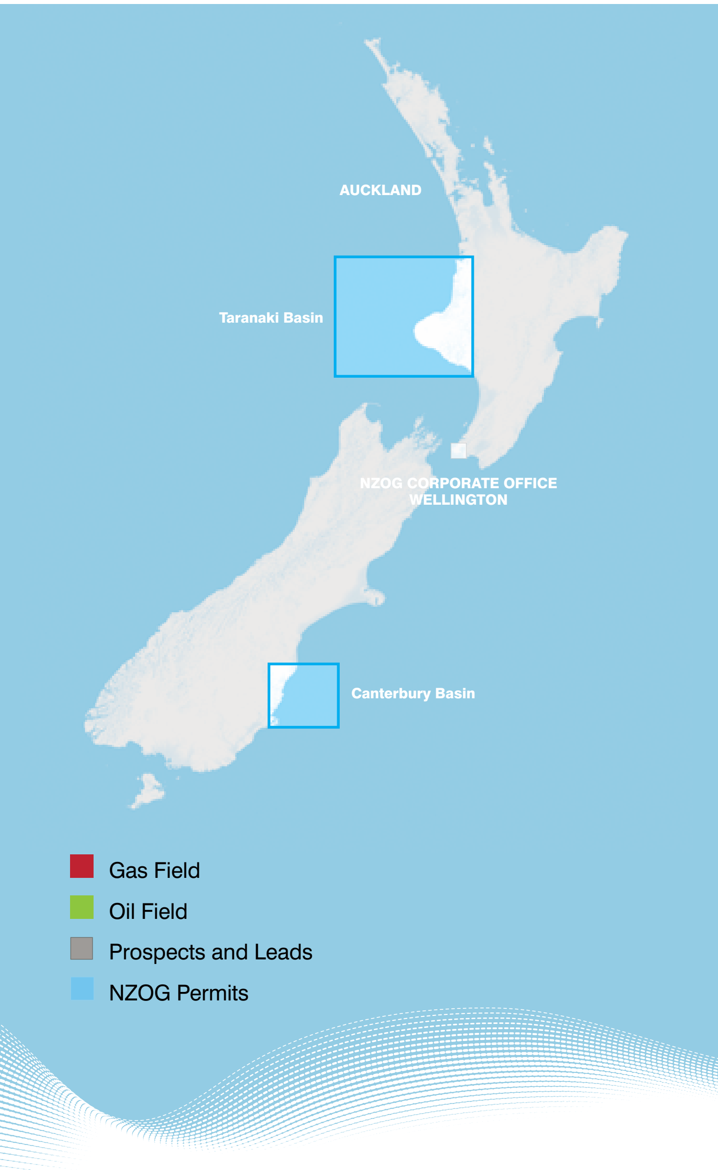
NZOG has a farm-out arrangement with ASX-listed Raisama Ltd, under which Raisama earns a 10% stake in the permit by paying 20% of the first well costs, capped at US$3m.

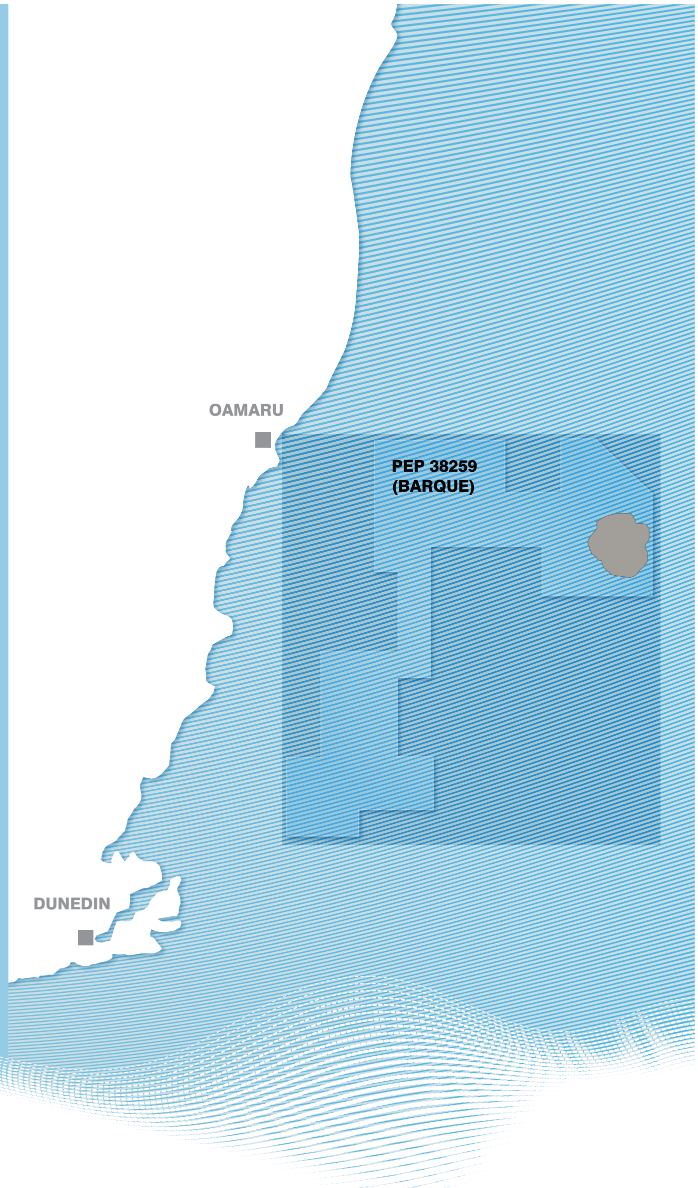
PEP 51558 (Kanuka)
NZOG 50%, Todd Energy (Operator) 50%

In 2011, NZOG and Todd Energy have both increased their stakes to 50% in this northern offshore Taranaki Basin permit and renamed it Kanuka. A large 3D seismic survey acquired by a previous venture is being reprocessed to improve definition of deep targets within the Kapuni sandstones, which have proven effective reservoirs in onshore Taranaki.

PEP 38491 (Albacore)
NZOG 100% (Operator)

NZOG holds 100% of this second term exploration permit following the withdrawal of Westech, the previous operator. The prospectivity of several undrilled structures is being examined in conjunction with exploration work in adjoining permits.





PEP 51988 (Mangaa)
NZOG 100% (Operator)
NZOG acquired this block in January 2010 and is completing the technical studies required during the first 24 months of the permit term.

PML 38146 (Kupe)
NZOG 15%, Origin Energy 50% (Operator), Genesis 31%, Mitsui 4%
This Petroleum Mining Licence area includes the producing Kupe Central Field. The permit area also contains a number of other potential structures containing oil or gas. The joint venture is conducting further detailed geological and geophysical assessment of those structures, with the possibility of drilling one or more prospects in conjunction with second stage development drilling which is currently scheduled for 2013/14.

PMP 38158 (Tui)
NZOG 12.5%, AWE 42.5% (Operator), Mitsui 35%, Pan Pacific Petroleum 10%
This Petroleum Mining Permit includes the producing Tui Area Oil Fields. The permit area also contains a number of undrilled 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.

CANTERBURY BASIN

PEP 38259 (Barque)
NZOG 40%, AWE 25% (Operator), Beach Energy 20%, Roc Oil 15%
This permit area contains the Barque gas-condensate prospect. 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.

Permit	NZOG Stake
Taranaki Basin	
PMP 38158 Tui	12.5%
PML 38146 Kupe	15%
PEP 51311 Kakapo	100%*
PEP 51988 Mangaa	100%
PEP 38491 Albacore	100%
PEP 51558 Kanuka	50%
Canterbury Basin	
PEP 38259 Barque	40%

** Reducing to 90% under a conditional farm-in agreement with Raisama Ltd.*

Kupe

NZOG has a 15% stake in the Kupe gas and oil field, which lies 30kms off the south Taranaki coast of New Zealand, and produces sales gas, LPG and light oil.

The development of the Kupe Central Field Area comprises three production wells, a normally unmanned offshore platform, a 30km pipeline and associated umbilical to shore, an onshore production facility near Hawera, and oil storage facilities at New Plymouth.

NZOG's Kupe partners are Origin Energy (50%), Genesis Energy (31%), and Mitsui (4%).

Production

Kupe began commissioning in December 2009 and went into permanent production in March 2010. In November 2010 the production plant passed a rigorous regulatory inspection requiring a three week shutdown.

Production for the year ended 30 June 2011	Total	NZOG's 15% Share
Sales Gas	17.6 PJ	2.63 PJ
LPG	75,000 tonnes	11,200 tonnes
Light Oil	1.84 mmbbls	276,000 barrels

For the financial year ending 30 June 2012, NZOG is forecasting its share of Kupe production to be approximately 3 PJ of sales gas, 320,000 barrels of oil and 12,800 tonnes of LPG.

Production

Reserves

Estimated Kupe proved and probable (2P) reserves were increased in July 2010 and were left unchanged following a reserves review completed in June 2011.

The initial 2P reserves of the Central Field Area are estimated to have been:

- 273 petajoules of sales gas (NZOG's share 41 PJ).
- 18.6 mmbbls of light oil/condensate (NZOG's share 2.8 mmbbls).
- 1.11 million tonnes of LPG (NZOG's share 167,000 tonnes).

As at 30 June 2011, the remaining 2P reserves are estimated to be:

- 245 petajoules of sales gas (NZOG's share 37 PJ).
- 15.7 mmbbls of light oil/condensate (NZOG's share 2.4 mmbbls).
- 1.07 million tonnes of LPG (NZOG's share 151,000 tonnes).

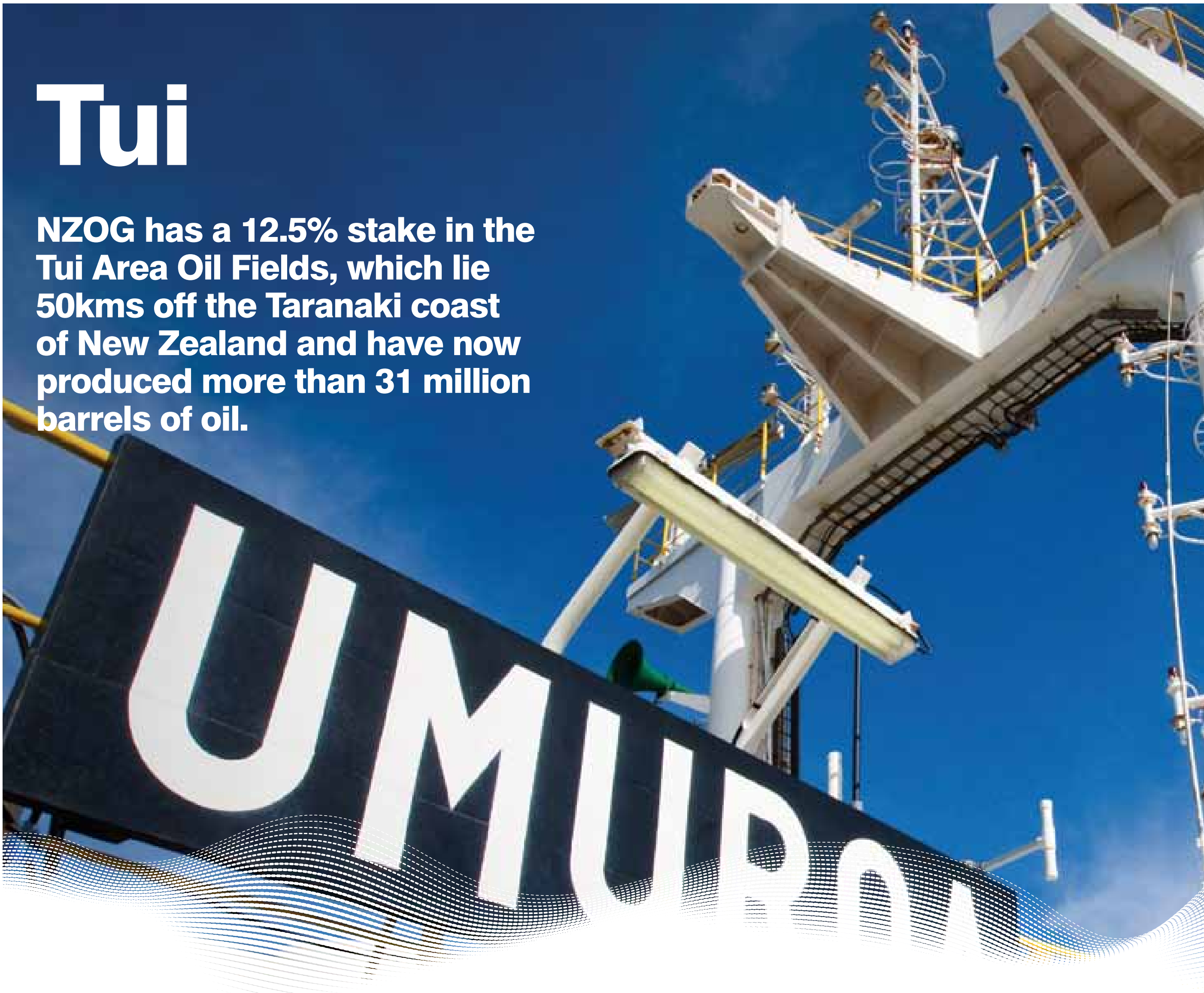
Revenue

In the financial year ended 30 June 2011 NZOG received NZ$66.33m in revenue from Kupe.

		NZ$m
Kupe Sales Revenue		66.33
Production and Marketing Costs	12.67	
Depreciation and Amortisation	18.84	
Insurance expenditure	0.94	
Royalties and net emission charges	4.27	
Cost of Sales		36.72
Kupe Gross Operating Profit		**29.61**

Tui

NZOG has a 12.5% stake in the Tui Area Oil Fields, which lie 50kms off the Taranaki coast of New Zealand and have now produced more than 31 million barrels of oil.



The Tui development includes four production wells from three separate oil accumulations; Tui, Pateke and Amokura.

The oil is processed through a floating production, storage and offtake vessel (FPSO), the Umuroa, before being loaded into oil tankers for shipment to Australia or Asia.

NZOG's Tui partners are AWE (42.5%), Mitsui (35%) and Pan Pacific Petroleum (10%).

Production

The Tui Area Oil Fields began producing in July 2007.

Production for the year ended 30 June 2011	Total	NZOG's 12.5% Share
Oil	2.81 mmbbls	350,000 barrels

The financial year began with one of the four producing wells, Pateke 3H, out of service due to an issue with the gas lift system. Pateke 3H was brought back into service in October 2010 following a successful workover and since then field production has typically been in the range of 7,000 to 8,000 barrels of oil per day.

For the financial year ending 30 June 2012, NZOG is forecasting its share of Tui production to be approximately 270,000 barrels of oil.

Production

Reserves

In July 2011, the Tui Operator, AWE, announced that preliminary work had indicated that the gross initial developed 2P reserves recoverable from the existing four well development of the Tui Area Oil Fields should be reduced to between 40 and 42 mmbbls.

Further work is being done on accessing possible additional volumes of oil with new or sidetracked wells and exploration targets adjacent to Tui fields also remain under evaluation.

Revenue

In the financial year ended 30 June 2011 NZOG received NZ$40.14m in revenue from Tui. The average sales price per barrel was US$96 or NZ$125 per barrel. NZOG's share of oil in stock at the end of the year was approximately 39,000 barrels.

		NZ$m
Tui Sales Revenue		40.14
Production and Marketing Costs*	15.94	
Depreciation and Amortisation	3.34	
Insurance expenditure	0.67	
Royalties and net emission charges	3.76	
Cost of Sales		23.71
Tui Gross Operating Profit		**16.43**

**Includes cost of Pateke well workover.*

Investments

Pike River Coal Ltd (in Receivership)

On 19 November 2010, 29 men went to work at the Pike River mine, and never came home again. There are many other consequences of the explosion, but nothing compares to the loss suffered by the family and friends of those 29 men.

The Pike River Royal Commission of Inquiry, along with Department of Labour and Police investigations, should in time provide some answers as to what happened in the mine.

The receivers for Pike River Coal Ltd, PricewaterhouseCoopers, are continuing their important role which involves efforts to stabilise the mine and recovering value from the assets.

The Receivers have indicated that they are engaged in constructive discussions with a number of companies interested in buying the mine.

At the end of June 2011, NZOG's financial exposure to PRCL included NZ$66.1m of secured and unsecured debt and a shareholding with a book value of NZ$77.1m. The outcome of the Receivers' efforts will determine how much of that value can be recovered.

For the annual accounts, NZOG has concluded that it can reasonably expect to recover the secured debt of NZ$51.5m and no impairment has been taken against this secured debt. Recovery of the unsecured debt is also possible, but less certain. Therefore an impairment has been taken against this unsecured debt of $NZ14.6m, and also against NZOG's PRCL shareholding.

Pan Pacific Petroleum

In December 2008, NZOG acquired a shareholding of just under 15% in Pan Pacific Petroleum (PPP).

This strategic stake was acquired because NZOG identified opportunities and synergies for both companies. NZOG and PPP have historically had close ties and we share an interest in the Tui Area Oil Fields.

Since becoming a PPP shareholder again in 2008 this has largely been a passive investment for NZOG. However, the investment is kept under constant review.

Supporting the Community

NZOG is the corporate partner of SARINZ: the Search and Rescue Institute New Zealand.

SARINZ is New Zealand's international training centre of search and rescue excellence. The focus is on both training and on undertaking research to develop internationally credible, effective and efficient search and rescue capabilities, which can be used in New Zealand and around the world.

As a non-profit charitable organisation, SARINZ works in partnership with search and rescue agencies in assisting with their training and participating in research that further enables more effective search and rescue operations. SARINZ is respected internationally and in turn is able to draw on overseas experience.

Training

In 2010 SARINZ delivered training to approximately 2500 students from across the Search and Rescue sector. This included the NZ Police, NZ Fire Service, Rural Fire, NZ Defence Force, LandSAR NZ, Civil Defence, Coast Guard, Youth SAR, Joint Search and Rescue Team – Antarctica, Australia Antarctic Division, Fonterra's Emergency Rescue Teams, teachers, caregivers and the members of the public.

SARINZ/NZOG Research and Development

SARINZ is unable to meet the needs of the sector without investing in ensuring the information and tools being provided are the best on the planet. NZOG helps SARINZ achieve just that. Notable Research and Development (R&D) projects completed in the past year with NZOG's funding support included:

- *A Coordinated Incident Management Systems (CIMS) project* – This research drew attention to the growing need for CIMS training across a wide range of organisations including emergency and support services, central government agencies and the corporate sector.
- *SAR 2030 project* – This project identified foreseeable patterns and trends in NZ SAR incidents and operational responses through to 2030 and will assist in critical strategic planning by the sector.

SARINZ, with support from NZOG, is now working on another two major R&D projects:

- Working with Eagle Technology to use their technology mixed with the International Search and Rescue Incident Database around Lost Person Behaviour (LPB) to create a usable tool for Search and Rescue practitioners that will revolutionize the use of LPB information.
- Implementing the recommendations of the CIMS project and creating training solutions that meet the sector needs. This will bridge a gap between theory and application that has hindered the sectors implementation of best practice emergency management.

By supporting and working with each other SARINZ and NZOG will *"help others save lives".*

Waikirikiri Lagoon and Beach Restoration Project

KUPE

A range of community projects and groups in south Taranaki have been supported in the past year by the Kupe joint venture.

A second significant financial donation was put towards the establishment of the Taiohi Oranga Youth Services Centre in Hawera. Other recipients of funding have included the South Taranaki SPCA, Cape Egmont Sea Rescue Vessel and Manaia School.

Several truckloads of surplus scaffolding equipment were donated to Habitat for Humanity in New Plymouth. The scaffolding will be used in Taranaki and to support housing initiatives in ten other Habitat Affiliates nationally.

A surplus portocom was donated to Nga Ruahine and transported to the Waiokuru Marae in Manaia.

TUI

The Tui joint venture looks to support projects that meet community needs, have a measurable positive impact and that deliver sustainable long-term benefits.

Following the devastating earthquake that crippled Christchurch in February 2011, the Tui joint venture partners made a significant donation to Red Cross New Zealand.

The Tui joint venture sponsorship of the Big Brothers Big Sisters programme in Taranaki has now been running for four years. Close to 100 Taranaki youngsters, matched by volunteer mentors, are currently participating in the youth mentoring programme.

For the second year running a partnership with the New Plymouth District Council has provided a water safety training programme for primary school students. A variety of other youth focused programmes in Taranaki are also supported.

With Tui joint venture funding, the foyer of Puke Ariki (New Plymouth's award winning Museum) has been redeveloped using the latest i-site technology. Other recipients of support include the Cape Egmont Rescue Vessel, the Waikirikiri Lagoon and Beach Restoration project, the Taranaki Arts Festival, and various sports events.

Total community support provided by the Tui joint venture in the 2011 financial year was over $500,000.

Directors

Tony Radford
Independent Chairman

Tony Radford is a founding director of New Zealand Oil & Gas Limited, which was established in 1981. Tony used his accounting background to build a career in the petroleum and mining industries. Since retiring as CEO of NZOG in 2007 he has continued as non-executive Chairman of the company. He is also a director of Pan Pacific Petroleum. Tony is a fellow of the Australian Institute of Company Directors.

Paul Foley
Independent Director

Paul Foley became a director of NZOG in 2000. He obtained a LLB and BCA from Victoria University of Wellington and is a senior corporate/commercial lawyer based in Wellington, where he is a partner in Minter Ellison Rudd Watts. Paul has over 20 years experience working with companies in the financial services, manufacturing and energy fields, with significant involvement with major petroleum exploration and production companies. He is chair of the Audit Committee and a member of the Executive Appointments and Remuneration Committee.

Peter Griffiths
Independent Director

Peter Griffiths joined the Board of NZOG in December 2009, having retired after 21 years with BP, the last 10 years of which he was Managing Director of BP NZ. Peter was previously involved in offshore oil and gas field operations in Australasia, Malaysia and the United Kingdom. He has served on the boards of New Zealand Refining Company Ltd, Liquigas Ltd and Bitumix Ltd and is currently a director of the Civil Aviation Authority, Northland Port Corporation, Wanganui Gas Ltd, New Zealand Diving and Salvage Ltd and Greenstone Energy Ltd. He holds a BSc (Hons) from Victoria University in Wellington. Peter is chair of the Executive Appointments and Remuneration Committee and a member of the Audit Committee.

Andrew Knight
Independent Director

Andrew Knight joined the Board of NZOG in January 2008. He is a Chartered Accountant and graduate of Waikato University with a BMs (Hons). Andrew has his own consultancy business and previously held executive management roles with Vector and NGC and worked in New Zealand and Australia with The Australian Gas Light Company, Fletcher Challenge Energy and Coopers & Lybrand. Andrew is a member of the Audit Committee and the Executive Appointments and Remuneration Committee.

Steve Rawson
Independent Director

Steve Rawson joined the Board of NZOG in 2000. He has a MSc in geophysics from Auckland University. His career started in petroleum geophysics, later followed by managerial positions with Fletcher Energy and Mighty River Power. He now has his own consultancy business.

David Scoffham
Independent Director

David Scoffham joined the Board of NZOG in 2003. David is a geophysicist with more than 40 years international experience in the upstream oil and gas industry; including Egypt, Gabon, Oman and Venezuela with Shell; and in exploration management with both Shell International and UK independent Enterprise Oil plc. David is a graduate of Christ Church Oxford (MA Physics) and Imperial College, London (MSc Geophysics). David is a member of the Audit Committee.

David Salisbury
Chief Executive and Managing Director

David Salisbury joined NZOG in April 2007. He obtained his LLB and BCA from Victoria University of Wellington and worked as a commercial solicitor before joining Petrocorp Exploration (later Fletcher Challenge Energy) as a business analyst. His career includes senior positions with Preussag Energie and OMV. Before joining NZOG he was Vice President Business Development for OMV based in Vienna, with responsibility for OMV's worldwide business development activities. In June 2011 David announced that he would be leaving NZOG at the end of the year.

Management

Mac Beggs
Exploration Manager

Mac Beggs joined NZOG in May 2009. He was founder and Managing Director of GeoSphere Ltd, an exploration geoscience consultancy. Prior to that he was Group Manager Resources with GNS Science and a petroleum geologist with its predecessor DSIR divisions from 1988 to 1997. Earlier he worked as a petroleum exploration geologist for the US affiliate of BP in Texas. Mac has BSc and MSc degrees in geology from the University of Otago and a PhD in geological sciences from the University of California.

Craig Jones
Chief Financial Officer and Company Secretary

Craig Jones joined NZOG in April 2009. He has 20 years broad experience in the corporate and financial management of listed companies. Craig joined NZOG from Petsec Energy Ltd, a Sydney-based ASX listed oil & gas exploration and production company. He is a Fellow of both the Australian Society of CPAs and the Institute of Chartered Secretaries and has a Business degree from the University of Southern Queensland.

Ralph Noldan
General Counsel

Ralph Noldan joined NZOG in November 2009. After graduating with a BCA from Victoria University of Wellington, Ralph worked as an accountant in the petroleum industry in New Zealand and the UK. In Sydney, Ralph graduated as a lawyer and was Company Secretary for an ASX listed petroleum exploration company for over 8 years. He then moved into private legal practice, working in the resources group of one of Australia's pre-eminent law firms, Mallesons Stephen Jaques. Prior to returning to New Zealand, Ralph was a partner at another Australian national law firm, Holding Redlich.

Chris Roberts
Corporate Affairs Manager

Chris Roberts joined NZOG in September 2007. After graduating with a BA in Politics and History from University of Waikato, Chris worked as a journalist for more than ten years, becoming a senior editor at Radio NZ. He then spent three years as a Parliamentary Press Secretary followed by five years in senior public affairs roles at Transpower NZ Ltd. Chris is on the Executive Committee of the Petroleum Exploration and Production Association of New Zealand (PEPANZ).

Shareholding Information

STOCK EXCHANGE LISTING

The Company's securities are listed on the New Zealand Stock Exchange (NZX) and the Australian Stock Exchange (ASX).

SECURITIES ON ISSUE

As at 31 August 2011 New Zealand Oil & Gas Ltd had the following securities:

Listed Ordinary Shares

392,113,944
shares

15,550
holders

Unlisted Partly Paid Shares

5,470,000
shares

29
holders

TOP 20 SHAREHOLDERS

Top 20 registered holders of Ordinary Shares as at 31 August 2011:

	Name	Shares Held	% of Issued Capital
1.	Accident Compensation Corporation	31,648,977	8.07
2.	National Nominees (New Zealand) Ltd	22,158,880	5.65
3.	Resources Trust Ltd	11,730,812	2.99
4.	Citibank Nominees (New Zealand) Ltd	10,592,244	2.70
5.	NZ Guardian Trust Investment Nominees Ltd	9,562,841	2.44
6.	HSBC Nominees (New Zealand) Ltd	8,902,774	2.27
7.	AMP Investments Strategic Equity Growth Fund	7,799,923	1.99
8.	New Zealand Superannuation Fund	6,091,052	1.55
9.	Sik-On Chow	5,500,000	1.40
10.	Westpac NZ Shares 2002 Wholesale Trust	3,928,203	1.00
11.	Asteron Life Ltd	3,812,507	0.97
12.	Riuo Hauraki Ltd	3,690,541	0.94
13.	Tea Custodians Ltd	3,598,242	0.92
14.	NZGT Nominees Ltd	3,293,916	0.84
15.	NZPT Custodians (Grosvenor) Ltd	2,943,015	0.75
16.	Resources Nominees Ltd	2,909,358	0.74
17.	Leveraged Equities Finance Ltd	2,813,576	0.72
18.	FNZ Custodians Ltd	2,586,618	0.66
19.	BT NZ Unit Trust Nominees Ltd	2,542,805	0.65
20.	New Zealand Depository Nominee Ltd	2,479,601	0.63

In the above table the holdings of New Zealand Central Securities Depository Limited have been reallocated to its applicable members.

DIVIDEND

On 24 August 2011 the NZOG Board declared that a fully imputed annual dividend of 2 cents per share would be paid. The entitlement date was 16 September 2011 with the dividend paid on 30 September 2011. The existing Dividend Reinvestment Plan provided the option of investing in existing shares instead of a cash dividend.

SHARE BUYBACK

A share buy-back scheme was announced by NZOG in September 2010, and was in place from 10 September 2010 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.

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.

DONATIONS

In December 2010, the Company made a donation of NZ$500,000 to the Pike River Disaster Relief Trust.

VOTING RIGHTS

Article 16 of the Company's Constitution states that a shareholder may exercise the right to vote at a meeting of shareholders either in person or through a representative. Where voting is by show of hands or by voice, every shareholder present in person or by representative has one vote. In a poll every shareholder present in person or by representative has one vote for each fully paid share. Unless the Board determines otherwise, shareholders may not exercise the right to vote at a meeting by casting postal votes.

ANNUAL MEETING

The 2011 NZOG Annual Meeting is being held at the Intercontinental Hotel in Wellington on Wednesday 26 October 2011, starting at 10.30am.

SHARE REGISTRAR

New Zealand

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North Shore City 0622

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Melbourne VIC 3001
Yarra Falls, 452 Johnston Street
Abbotsford VIC 3067
Australia

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Telephone: + 61 3 9415 4083
Facsimile: + 61 3 9473 2500

MANAGING YOUR SHAREHOLDING ONLINE

To change your address, update your payment instructions and to view your registered details including transactions, please visit www.computershare.co.nz/investorcentre

General enquiries can be directed to:
enquiry@computershare.co.nz

Please assist our registry by quoting your CSN or shareholder number when making enquiries.

Financial Summary

All numbers are quoted in NZ dollars and millions

Summary of Financial Performance	FYE11	FYE10	FYE09	FYE08
Revenue from continuing operations	108.9	100.1	138.9	234.1
Royalties expense	(8.0)	(7.5)	(23.8)	(26.4)
Earnings before interest, tax, depreciation, amortisation and exploration	**58.5**	**64.5**	**83.0**	**185.7**
Exploration Expenditure	(3.4)	(30.7)	(4.2)	(14.7)
Earnings before interest, tax, depreciation and amortisation	**55.0**	**33.8**	**78.8**	**171.0**
Depreciation and Amortisation	(22.4)	(15.7)	(13.8)	(23.1)
Earnings before tax and interest	**32.6**	**18.1**	**65.0**	**147.9**
Net finance income/(costs)	(103.2)	(9.9)	23.2	(9.4)
Share of associate after tax result	0.0	(11.5)	(3.9)	(0.4)
Net profit before tax	(70.6)	(3.3)	84.3	138.1
Tax	(5.3)	(0.6)	(31.1)	(40.9)
Net Profit after tax	**(75.9)**	**(3.9)**	**53.2**	**97.2**

Summary of Financial Position	FYE11	FYE10	FYE09	FYE08
ASSETS				
Cash and cash equivalents	149.4	142.4	174.8	256.5
Other current assets	26.5	22.8	11.7	58.4
Convertible Bond	35.1	39.9	0.0	0.0
Investments in associates	0.0	77.1	74.8	68.7
Exploration and evaluation assets	7.3	6.6	5.2	0.2
Oil and gas assets	232.6	253.9	242.2	204.5
Fixed assets, including intangibles	0.3	0.5	0.3	0.6
Available for sale assets	15.7	19.7	48.8	0.0
Other non-current assets	0.0	0.0	0.1	3.5
Total Assets	**466.9**	**562.9**	**557.9**	**592.4**
LIABILITIES				
Current liabilities	15.3	20.8	29.8	73.9
Borrowings	63.3	62.8	0.0	64.0
Restoration and rehabilitation provision	15.7	12.0	8.1	11.3
Deferred tax liability	28.2	23.1	23.2	12.2
Total Liabilities	**122.5**	**118.7**	**61.1**	**161.4**
EQUITY				
Share capital	358.2	353.7	347.2	346.0
Reserves and retained earnings	(13.8)	90.5	149.6	85.0
Total Equity	**344.4**	**444.2**	**496.8**	**431.0**

Statement of Cash Flow	FYE11	FY10	FYE09	FYE08
Net cash inflow/(outflow) from operating activities	68.6	47.4	93.0	153.9
Net cash inflow/(outflow) from investing activities	(32.9)	(120.7)	(116.9)	(106.3)
Net cash inflow/(outflow) from financing activities	(15.5)	49.6	(74.2)	179.9
Net increase/(decrease) in cash and cash equivalents	**20.2**	**(23.7)**	**(98.1)**	**227.5**
Cash and cash equivalents at the beginning of the year	142.4	174.8	256.5	35.4
Cash increase/(decrease) with exchange rate change	(13.2)	(8.7)	16.4	1.0
Cash decrease with deconsolidation of subsidiary	0.0	0.0	0.0	(7.4)
Cash and cash equivalents at the end of the year	**149.4**	**142.4**	**174.8**	**256.5**

NZOG's full financial results are published in the 2011 Annual Report.

FYE = Financial Year End

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