Activities Report

for the quarter ended 31 December 2011

Dear Investor

It is my pleasure and privilege to report to you for the first time.

The last three month period saw NZOG take significant steps in its two new areas of interest, Southeast Asia and North Africa.

NZOG now has a portfolio of interests on the Indonesian island of Sumatra. The most immediately significant of these is a permit where an exploration well is being planned for the middle of this year.

In Tunisia, NZOG has acquired a 40% stake in a Tunisian concession that contains an oil field which could be brought into production as early as 2014. NZOG's initial cost exposure is relatively small. If the numbers stack up we will commit to the Final Investment Decision later this year and will be able to comfortably fund the capital commitment from our balance sheet. This is a near term development opportunity, with both production upside and exploration potential.

Back home, NZOG has continued with preparatory work for drilling the Kakapo prospect, which lies off the coast of southern Taranaki. Working with other companies active in Taranaki, NZOG is looking to bring a suitable drilling rig to New Zealand towards the end of 2012.

There have been some changes to the rest of NZOG's exploration holdings in New Zealand. The Albacore and Mangaa permits in offshore Taranaki have been relinquished to the Crown. A number of leads were identified in these permits but none appeared significant enough on a risked basis to justify further exploration investment.

In the Canterbury Basin, there has been a change in the make-up of the joint venture holding the Barque permit. NZOG has agreed to become Operator of the permit and has an active farm-out programme underway, seeking to bring an experienced offshore player into the joint venture ahead of making a drilling commitment.

NZOG received a portion of the Pike River Coal Ltd insurance settlement during the quarter, while continuing to fund the Receivers' work, which includes the sale process and allowing for a safe re-entry into the mine tunnel.

NZOG's operating revenue in the last quarter was NZ$25.1m. Both Tui and Kupe had planned maintenance outages during the period but otherwise performed strongly.

The year ahead promises to be a busy one with a number of exciting possibilities to build on the solid base provided by Kupe and Tui. Our technical and commercial evaluations will be thorough as we seek to advance projects that offer real prospects of creating value for shareholders.

Andrew Knight CEO
24 January 2012

Key Points

- **Development opportunity acquired in Tunisia**
- **Indonesia interests extended**
- **NZ exploration portfolio rationalised**

Production

The "Scandi Singapore DSV", which has been doing undersea work for Tui and Kupe.

Kupe

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

In the three months to the end of December, Kupe produced 3.87 PJ of sales gas (NZOG's allocation 0.58 PJ), 17,350 tonnes of LPG (NZOG's share 2,600 tonnes) and 372,000 barrels of light oil (NZOG's share 55,800 barrels).

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

The joint venture partners have entered into a further contract with BP Singapore for the sale and marketing of Kupe oil.

The planned annual maintenance shutdown of the Kupe plant was brought forward to 25 October to coincide with a national 'Critical Contingency Event' curtailment order instituted in response to a leak in the Maui Pipeline. The shutdown was completed a day ahead of schedule.

Outside of the shutdown, plant availability was 100% during the quarter and field performance was good. As expected, gas nominations reduced in December as the weather warmed up and electricity demand dropped.

In October, a small diesel spill occurred from the generators on the unmanned offshore platform. The incident was reported to Maritime NZ and action has been taken to prevent a reoccurrence. There was no material environmental impact.

An inspection of the umbilical line that runs out to the platform from the shore identified some deterioration in some of the clamps tying the umbilical to the pipeline. Immediate repairs were made to ensure continued safe operation and plans are in place to install a new clamping system. As the issue has been identified as a flaw in the clamp design rather than general wear and tear, the Operator is investigating making an insurance claim.

Tui

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

Total oil production at Tui for the three months to the end of December was 518,500 barrels of oil, at an average rate of 5,600 barrels per day. NZOG's share of the oil production was 64,800 barrels.

NZOG's revenue from Tui in the quarter was NZ$6.5m. There was one tanker shipment of 351,000 barrels (NZOG's share 44,000 barrels). A further tanker shipment was off-loaded on 1-2 January. At 31 December there were approximately 535,000 barrels of oil in stock (NZOG's share 67,000 barrels).

In November/December a 14 day planned survey shutdown of the production facility was successfully completed one day early. Planning and detailed design for a subsea maintenance and repair program was completed in late December. A specialist vessel carried out the work in mid-January.

NZOG Production

Product	October-December 2011
Kupe:	
Kupe sales gas	0.58 petajoules
Kupe LPG	2,600 tonnes
Kupe light oil	55,800 barrels
Tui:	
Tui oil	64,800 barrels

Investments

PAN PACIFIC PETROLEUM

NZOG has a 15% shareholding in Pan Pacific Petroleum (PPP), one of its Tui partners. At its Annual Meeting in November, PPP announced its intention, subject to shareholder approval, to make a capital return to shareholders of A5 cents per share.

The timing and structure for the capital return has not been confirmed but it is expected to be in the first quarter of 2012. NZOG's share of the capital return will be approximately A$4.4m.

New Zealand Exploration

TARANAKI BASIN

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

Planning continues for a well to drill the Kakapo prospect. The timing will be determined by the availability of a suitable offshore drilling rig, which is not anticipated before late 2012.

This well is expected to be drilled after the Exclusive Economic Zone and Continental Shelf (Environment Effects) Bill, which is currently before Parliament, is passed into law. NZOG has initiated discussions with the Environmental Protection Agency (EPA) which will administer this legislation, as well as with other government agencies and stakeholders.

The well site is situated in water depth of about 100m, about 25km to the southwest of the Kupe production platform. The main target formation is anticipated at a depth of about 2,300m, with estimated mean prospective resources of over 200 million barrels of oil.

ASX-listed Raisama Ltd will earn a 10% stake in the permit by paying 20% of the first well costs, capped at US$3m. NZOG anticipates reducing its exposure to the well cost through attracting an additional joint venture partner.

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

Todd Energy, as Operator, is leading a detailed review of this northern offshore Taranaki Basin permit to improve definition of deep targets within the Kapuni sandstones, which have proven effective reservoirs in the largest Taranaki Basin fields. This work currently includes reprocessing of a large 3D seismic survey acquired by a previous venture, to improve the basis for detailed mapping of target structures and prospective reservoir systems.

PEP 51988 (Mangaa) *Relinquished*
NZOG 100% (Operator)

NZOG acquired this northern offshore Taranaki block in 2010. During the last quarter the technical studies required during the first 24 months of the permit term were completed. A number of leads were identified and assessed. However, none were of sufficient size to justify moving to the next, more expensive stage of evaluation, which would have required a 3D seismic survey or an exploration well. The decision was therefore taken to relinquish the permit to the Crown.

PEP 38491 (Albacore) *Relinquished*
NZOG 100% (Operator)

Several undrilled structures in this permit have been evaluated, along with the leads in the adjacent Mangaa block, but none have proved sufficiently attractive and the permit has been relinquished.

PML 38146 (Kupe) NZOG 15%,
Origin Energy 50% (Operator),
Genesis 31%, Mitsui 4%

Geological and geophysical assessment of un-drilled prospects within the Kupe Mining Licence is ongoing, to evaluate the merit of drilling one or more in conjunction with second stage development drilling within the Kupe Central Field Area.

PMP 38158 (Tui)
NZOG 12.5%, AWE 42.5% (Operator),
Mitsui 35%, Pan Pacific Petroleum 10%

Un-drilled prospects within the Tui Petroleum Mining Permit are undergoing advanced geophysical evaluation to determine the merit of any further exploration drilling opportunities.

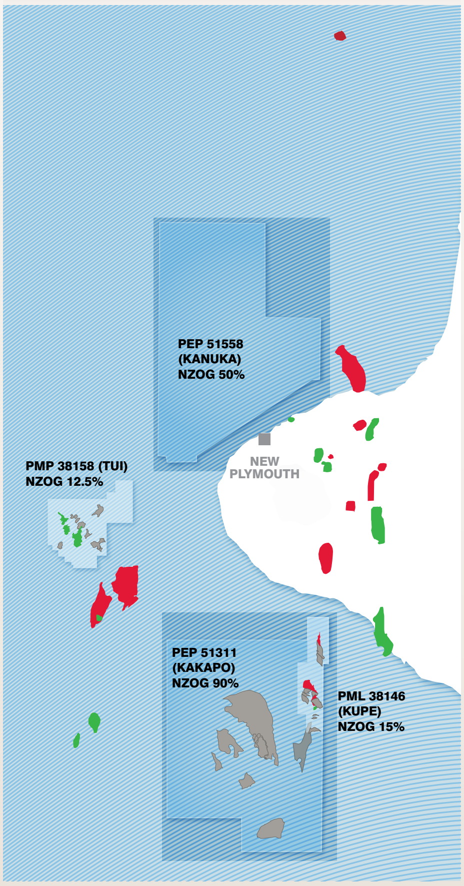
CANTERBURY BASIN

PEP 38259 (Barque)
NZOG 40% (Operator),
AWE 25%, Beach Energy 35%

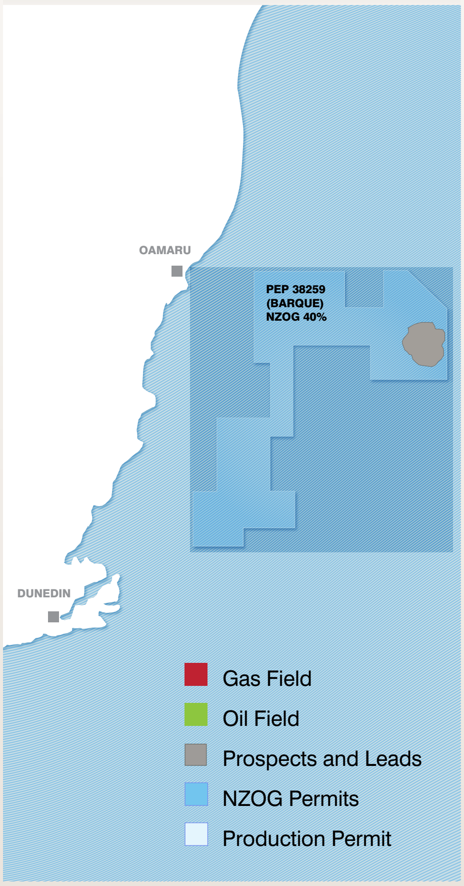
This permit area contains the Barque gas-condensate prospect. During the quarter Roc Oil agreed to transfer its 15% interest to Beach Energy and AWE agreed to transfer Operatorship of the permit to NZOG. These changes have been submitted to NZ Petroleum and Minerals for ratification. A Change of Conditions application for the permit was granted in December, extending the drill decision date until August 2012.

This allows time for NZOG, as the new Operator, to undertake a concerted international farm-out campaign. The objective is to attract into the joint venture a new partner with experience of drilling in frontier basins, ahead of the drilling commitment date.

Taranaki Basin Permits



Canterbury Basin Permits



Tunisia

Cosmos Concession

NZOG 40%, Storm Ventures International 40% (Operator), ETAP 20%

In December, an agreement was signed in Tunis for NZOG to take a 40% stake in the Cosmos Concession, located in the Gulf of Hammamet. Under the terms of the agreement, NZOG has paid a US$3m contribution to past costs.

NZOG's partners are Storm Ventures International, a subsidiary of Toronto-listed Chinook Energy, and Tunisia's state-owned oil company L'Enterprise Tunisienne d'Activites Petrolieres (ETAP).

The concession contains an offshore oil discovery, Cosmos A, that is being assessed for development. There are also several adjacent prospects and leads, which if proven, would be accessible using the same infrastructure. In addition to the Cosmos development area, the concession contains several other potential exploration targets.

Independently evaluated proved and probable oil reserves of 6.3 million barrels have been attributed to the main Cosmos A lobe, with upside potential from the adjacent lobes. Further assessment of the recoverable oil resource, along with front end engineering design work, will take place ahead of a final investment decision later this year.

If an oil field development is agreed to by the partners, NZOG will pay the first US$19m of Storm's share of the development costs. First oil production could be achieved by 2014.

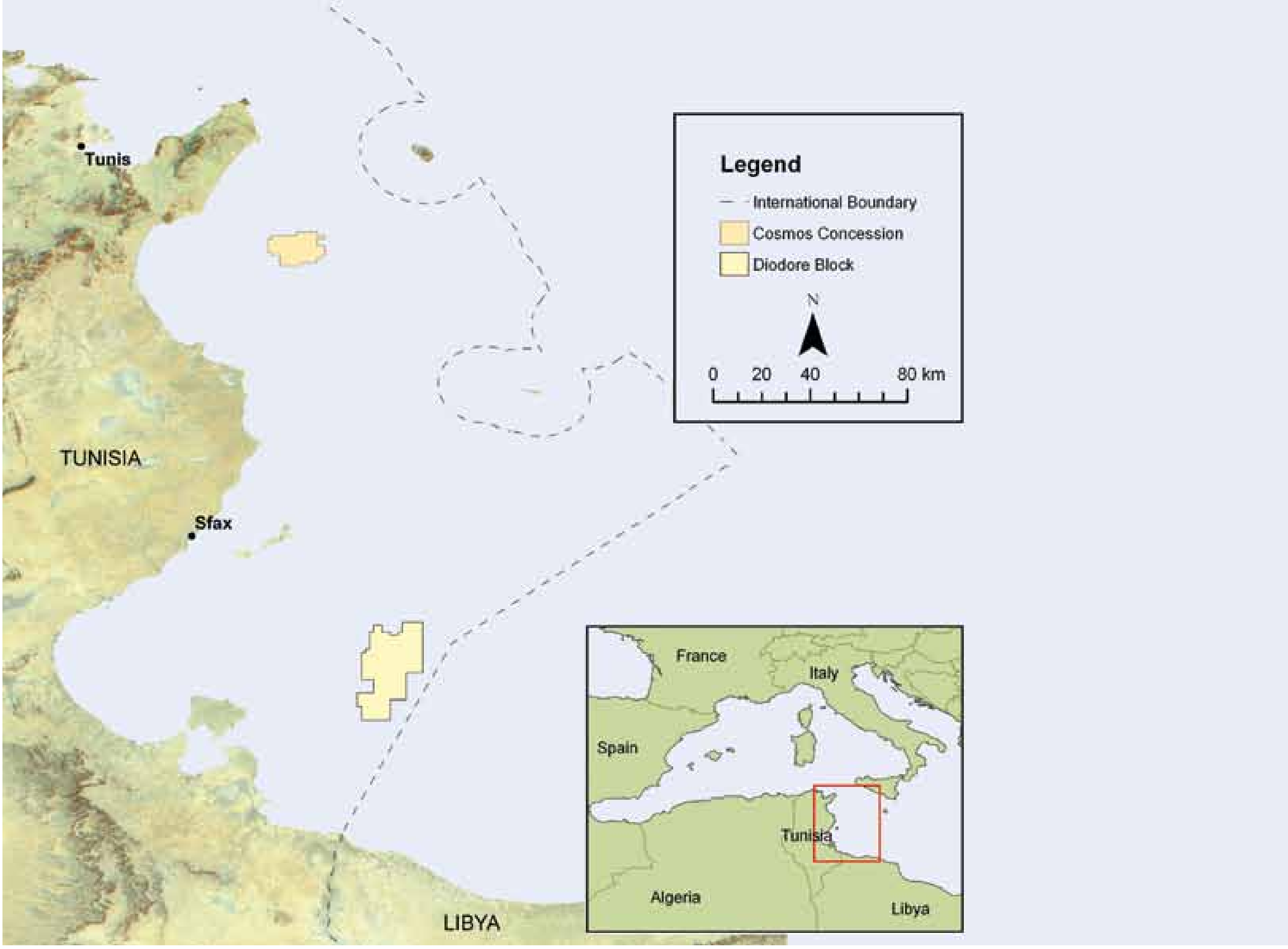
Diodore Block

NZOG 100% (Operator)

In 2011 NZOG was granted a permit in the Gulf of Gabes. The Diodore permit extends over an area of 1,200 sq km and is surrounded by discovered and producing oil and gas fields.

A two year prospecting permit was 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 new 2D seismic data.

NZOG is finalising arrangements for the seismic survey, as well as arranging the reprocessing of existing 3D seismic data.



Indonesia

Kisaran Permit

In December, NZOG acquired an interest in an onshore exploration permit in the central Sumatra Basin. NZOG has a 22.5% share in the permit via the purchase of a 90% shareholding in one of the existing parties to the joint venture holding the permit.

As part of its due diligence NZOG has identified and assessed six prospects within the permit block, with total mean prospective resources (un-risked) of over 140 million barrels of oil.

Planning is underway to drill one well in the first half of 2012. The prospect has two target zones, with total mean prospective resources (unrisked) of over 40 million barrels of oil. Technical assessment of the resource potential in the permit block is ongoing.

Under the arangement NZOG has contributed US$6.5m towards the cost of drilling the first well, and will share any future costs on a participating interest basis. The permit is subject to the standard Indonesian Production Sharing Contract (PSC) terms.

Joint Study Agreements

During the quarter NZOG was successful with an application for a Joint Study agreement (JSA) to review an area of open acreage in southern Sumatra. A JSA involves a six month study period in consultation with an Indonesian institution, after which a priority application can be made for an exploration permit.

Studies are almost complete for the JSA in northern Sumatra which was awarded in August 2011. An application for a third JSA in Sumatra was submitted at the end of December.

Share Buy-Back

In November, NZOG initiated a new share buy-back. The NZOG Board is of the view that the current share price is significantly below fair value and does not reflect a reasonable current valuation of the company or its prospects for further growth.

A buy-back of shares is an opportunity to provide a return to shareholders in excess of NZOG's cost of capital. The shares acquired are cancelled, proportionally increasing all remaining shareholders' interests in the company and the earnings per share.

The maximum number of shares to be acquired in the buy-back is 10 million. Purchases are made by a broker on NZOG's behalf through the NZX market and may occur until 31 October 2012.

In the period to 31 December 2011, 1,629,501 ordinary shares were acquired and cancelled under the share buy-back scheme; at an average price of NZ70.5 cents per share and a total cost (including brokerage) of NZ$1,148,000.

Special Meeting

The NZOG Board has called a Special Meeting of Shareholders, to be held in Wellington on 20 February. The meeting has one item of business: to request shareholder approval for part of the remuneration package offered to the new Chief Executive, Andrew Knight.

The Board wishes to offer Mr Knight the opportunity to purchase 3 million shares under the employee share ownership scheme. As Mr Knight is also Managing Director, shareholder approval is needed.

Shareholders do not need to attend the meeting to participate in the decision making. A Voting Card has been sent to all shareholders, which needs to be returned in the supplied envelope by 18 February.

Special Meeting

Date: Monday 20 February 2012
Time: 10am
Venue: Terrace Conference Centre, St John's House, 114 The Terrace, Wellington

Financial update

NZOG's operating revenue for the December quarter was NZ$25.1m. This included revenue from the sale of Tui oil (NZ$6.5m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$18.6m).

During the quarter NZ$41m was received from the Pike River Coal Ltd (PRCL) insurance settlement, in part payment of NZOG's secured and unsecured debt. A total of NZ$4.6m has been advanced to PRCL's Receivers under a short term loan agreement to fund their on-going work including the stabilisation and re-entry of the mine tunnel.

In December, US$3m was paid under NZOG's agreement to take a 40% stake in the Cosmos concession in Tunisia.

As at 31 December 2011, NZOG's cash balance was the equivalent of NZ$191.5m, with cash holdings held in both NZ and US dollar accounts.

NZ$5.4m was paid off NZOG's debt facility with Westpac during the quarter. The balance borrowed currently stands at NZ$54.8m and this will be repaid in full by March 2015. NZOG has no other debts.

NZOG's net cash position as at 31 December 2011 was NZ$136.7m.

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

For further information please contact:

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