ActivitiesReport

for the quarter ended 30 September 2011

Dear Investor

During the last quarter NZOG announced its annual results, declared and paid out a fully imputed 2 cents per share dividend, and gave its support to early payment for unsecured creditors arising from a settlement on insurance claims relating to Pike River Coal Ltd (PRCL).

The headline financial result, largely due to impairments taken against NZOG's investment in PRCL, was a loss of NZ$75.9m. However, the underlying operating performance was strong and in line with forecasts. Excluding extraordinary items, a normalised profit of NZ$30.6m was achieved.

Because of this good underlying performance and ongoing strong cash flows, the Board decided to pay a dividend. Around one-third of shareholders elected to exchange their cash dividend for additional shares, through NZOG's Dividend Reinvestment Plan.

The company's sound financial position has been further reinforced with the receipt in October of $38.3m from the PRCL insurance settlement. NZOG continues to support the Receivers who are making good progress over a complex range of issues including tunnel re-entry and the mine sales process.

During the quarter NZOG made further progress with its international expansion. A seismic contract is being finalised, which will see a 460km 2D seismic survey carried out over NZOG's Diodore block off the coast of Tunisia.

NZOG has also advanced its interests in Sumatra, Indonesia, where an acreage study is underway, another has been applied for and a farm-in agreement is being discussed.

In New Zealand, we are in negotiations to secure a drilling rig for our planned Kakapo-1 well, off the South Taranaki coast. Rig availability is always an issue to be overcome in our part of the world but we expect that we will be able to secure a rig that will allow us to drill Kakapo sometime in 2012.

Our producing assets, Kupe and Tui, continued to provide strong revenues through the period, with Kupe production levels setting new records.

By the time you are reading this Report, you may have attended our 2011 Annual Meeting or one of our subsequent Investor Briefings. If you were unable to attend, the meeting presentations are available through our website. I trust that we have been able to adequately inform you, answer your questions and convey our ongoing strategy for growing the business and building shareholder value.

David Salisbury CEO
20 October 2011

Key Points

- **Dividend paid**
- **PRCL insurance claims settled**
- **Overseas interests advanced**

Production

Kupe

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

It was a record setting quarter for Kupe production, with Genesis Energy increasing its gas offtake requirements for its thermal power stations as winter conditions increased electricity demand. With increased gas production comes an associated rise in oil and LPG production.

In the three months to the end of September, Kupe produced 5.73 PJ of sales gas (NZOG's allocation 0.87 PJ), 25,300 tonnes of LPG (NZOG's share 3,700 tonnes) and 555,000 barrels of light oil (NZOG's share 83,250 barrels).

NZOG's revenue from Kupe in the quarter was NZ$18.5m.

Plant performance and reliability has generally been good. However, following an inspection that identified possible design flaws, maintenance is underway to stabilise the pipeline and umbilical that run from the offshore field to the onshore production station. Fan fin blades on the Debutaniser OH condenser at the production station have also had to be replaced. In both cases the Operator is in discussions with the manufacturers regarding liability for the repair and replacement costs.

Tui

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

Total oil production at Tui for the three months to the end of September was 664,600 barrels of oil, at an average rate of 7,225 barrels per day. NZOG's share of the oil production was 83,080 barrels.

Well and facility performance has been good. With the arrival of replacement parts, repairs are being completed to the gas lift compressor units.

In June, the offshore facility, the 'Umuroa', achieved the milestone of 1 year without a lost time injury. However, in August a worker crushed his finger whilst attempting to move a large spool onto a pallet truck and was off work for some weeks. The incident was avoidable and the need to undertake job risk assessments before tackling such tasks has been stressed to all crew.

As previously announced, in July, AWE advised that the estimate of the gross initial developed 2P reserves would be reduced to between 40 and 42 million barrels (mmbbls). Following further assessment, an estimate of 41 mmbbls has now been adopted. 31.8 mmbbls has been produced to date from Tui, leaving an estimated 9.2 mmbbls to be recovered over the next 8 years or so (without allowing for possible exploration success or further development wells).

NZOG's revenue from Tui in the quarter was NZ$11.0m. There were two tanker shipments totalling 404,500 barrels (NZOG's share 50,500 barrels), with approximately 367,500 barrels of oil in stock (NZOG's share 46,000 barrels) at the end of the quarter.

NZOG Production

Product	July - September 2011
Kupe:	
Kupe sales gas	0.87 petajoules
Kupe LPG	3,700 tonnes
Kupe light oil	83,250 barrels
Tui:	
Tui oil	83,080 barrels

Investments

PIKE RIVER

For the families of the 29 men who lost their lives in the Pike River Mine, it must seem that, almost a year on, things are moving very slowly towards a resolution. The Royal Commission has completed two of its four phases and will continue well into next year, while other inquiries are also continuing.

The families' frustration and concern is understandable. However, NZOG's involvement is principally through the Receivership, and we have seen the Receivers make commendable progress in managing a very complex set of tasks, which go well beyond the normal bounds of a receivership situation.

Reclaiming the access tunnel or drift has always been a priority – but it must be done safely. Working with PRCL staff and an Expert Panel, and with NZOG's financial backing, the Receivers have completed work which has stabilised the mine. A detailed plan is now being put into action to reventilate the access tunnel to allow safe re-entry.

The Receivers also concluded an $80m settlement with PRCL's insurers. With just over $6m going to the owners of leased mining equipment, almost $74m was available to put towards PRCL's debts.

The Bank of New Zealand was a first ranking secured creditor owed over $23m and has been paid in full. As the other first ranking secured creditor, NZOG has legal priority to all of the remaining monies. However, NZOG recognises the huge and ongoing impact the tragic events have had on the West Coast community.

Hopefully all of PRCL's creditors can receive full payment when the sale of the mine occurs. However, for the mine workers, contractors and suppliers this has been a very stressful time, emotionally and financially. NZOG therefore supported the Receivers using some of the insurance payout to make a voluntary early payment to all unsecured creditors - a decision which supports the sales process and the prospects of the mine re-opening.

Under the plan, which was unanimously approved, unsecured creditors are receiving the first $10,000 of their claim (or their full claim if less than $10,000) and up to 20c in the dollar for any balance above that amount. More than 240 creditors are being paid in full and more than 220 creditors are receiving a part-payment.

NZOG has received $38.3m as a secured creditor and will receive $3.0m as an unsecured creditor under the payment plan.

Since December 2010 the Receivership has been funded by the balance of the $12m that NZOG advanced to PRCL following the November 2010 explosion. By September 2011, the available working capital had nearly been exhausted. Rather than the Receivers retaining funds from the insurance settlement process for working capital purposes, NZOG executed a $5m short term loan agreement with the Receivers on terms similar to the previous short term loan to PRCL. As a loan direct to the Receivers, this loan has priority rights over other secured and unsecured debt. To date the Receivers have drawn down $4.3m from this facility.

Including the new loan advance, NZOG is currently owed approximately $22.6m in secured debt and $15.3m in unsecured debt and expects to recover at least the secured portion following the sale of the mine. NZOG understands that the Receivers are in an advanced stage of negotiations with potential buyers.

NZ Exploration

TARANAKI BASIN

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

NZOG has a project team progressing work for drilling the Kakapo oil prospect and is in negotiations to secure a suitable drilling rig.

The prospect is a stacked series of Motueka coastal sands, which are laterally truncated and prognosed to be sealed by deep canyons. 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. Farm-out discussions are ongoing with several other interested companies.

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. Todd Energy, as Operator, is leading a detailed review to improve definition of deep targets within the Kapuni sandstones, which have proven effective reservoirs in onshore Taranaki. This includes reprocessing of a large 3D seismic survey acquired by a previous venture.

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 licence 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%

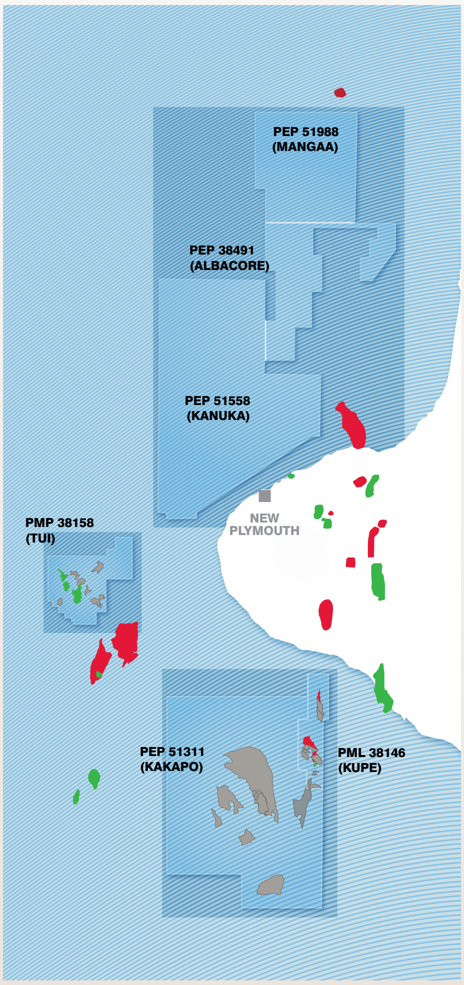
This Petroleum Mining Permit includes the producing Tui Area Oil Fields. The permit area also contains a number of undrilled prospects and leads. The 3D seismic data covering most of the permit area has been reprocessed including pre-stack depth migration. Un-drilled prospects are undergoing further evaluation incorporating the latest seismic reprocessing and modelling work.

CANTERBURY BASIN

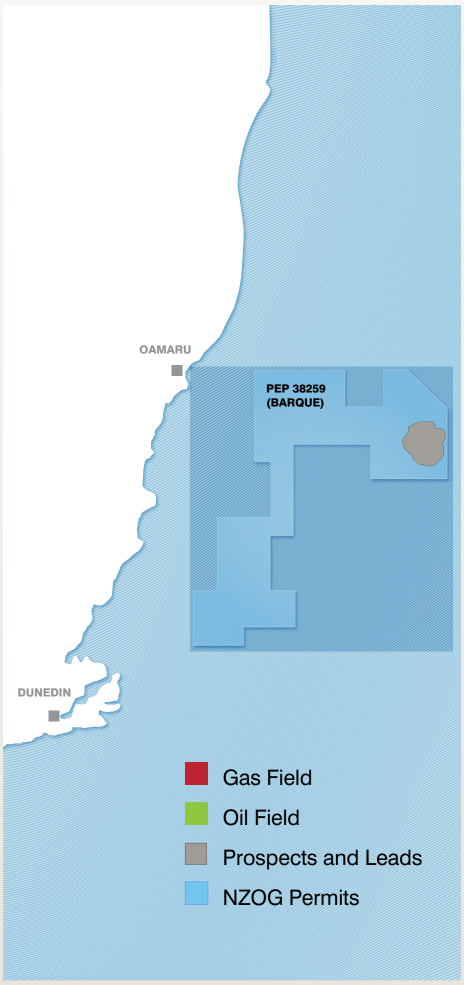
PEP 38259 (Barque)
NZOG 40%, AWE 25% (Operator), Beach Energy 20%, Roc Oil 15%

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.

Taranaki Basin Permits



Canterbury Basin Permits



Expanded Horizons

Tunisia

In June 2011, NZOG was granted a permit in the Mediterranean's Gulf of Gabes, an established oil and gas producing region off the coast of Tunisia.

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 350km of new 2D seismic data.

NZOG has been able to secure a seismic vessel and the survey is planned to commence in December. A total of 460km of seismic lines will be shot, to allow tie-ins with neighbouring wells. Acquisition of this seismic data so quickly puts us well ahead of the permit requirements and will allow us to make an early decision on committing to drilling.

NZOG has established a one-person office in Tunis. Diodore is the first step to developing a new core area and other opportunities are under active consideration.

Indonesia

During the quarter NZOG continued to work with Indonesian-focused company, Bukit Energy, on identifying attractive opportunities, mostly in Sumatra.

In August, a Joint Study Agreement (JSA) was awarded over acreage in northern Sumatra. The study is now underway and at the end of the study period, NZOG will have a right of first refusal for any subsequent allocation of an exploration permit.

A second JSA application has been made, a farm-in offer in Sumatra is currently being negotiated and other opportunities are under active assessment.

Financial update

NZOG's operating revenue for the September quarter was NZ$29.5m. This included revenue from the sale of Tui oil (NZ$11.0m) and revenue from the sale of Kupe sales gas, LPG and light oil (NZ$18.5m).

On 30 September, NZ$5.4m was paid out in dividend payments.

As at 30 September 2011, NZOG's cash balance was the equivalent of NZ$154.7m, with cash holdings held in both NZ and US dollar accounts.

Over the quarter, the NZ/US exchange rate fell from 82.7 cents to 76.7 cents. Some of this fall has been reversed in October. This exchange rate volatility shows why a medium term view must be taken and why NZOG retains a balance of currency holdings.

NZ$3.1m was paid off NZOG's debt facility with Westpac during the quarter. The balance borrowed currently stands at NZ$60.2m and this will be repaid in full by March 2015.

NZOG's net cash position as at 30 September 2011 was NZ$94.5m. As a result of the PRCL insurance settlement, a payment of NZ$38.3m was received by NZOG in mid-October with a further NZ$3.0m to follow.

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

For further information please contact:

David Salisbury, Chief Executive Officer
Chris Roberts, Corporate 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