

NEW ZEALAND OIL & GAS LIMITED

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

Notice is given that a Special Meeting of shareholders of New Zealand Oil & Gas Limited ["New Zealand Oil & Gas" or "the Company"] will be held at Te Wharewaka Function Centre, Odlins Square, 109 Jervois Quay, Wellington at 9am [NZ Daylight Saving Time] on Friday, 16 December 2016.

Resolutions for approval of Kupe Sale Transaction

The business of the Special Meeting is to consider and, if thought fit, pass the ordinary and special resolutions set out below. The resolutions relate to the proposed sale of the New Zealand Oil & Gas subsidiaries holding interests in and relating to the Kupe gas, LPG and condensate field to Genesis Power Investments Limited ["Genesis Purchaser"], which is a subsidiary of Genesis Energy Limited ["Genesis Energy"]. The Kupe Sale Transaction is described in the Explanatory Notes below.

The NZX Main Board/Debt Market Listing Rules ["Listing Rules"] together with the Companies Act 1993 operate so that both ordinary and special resolutions are required to approve the Kupe Sale Transaction. The reasons for this are discussed in the Explanatory Notes below.

The resolutions are as follows –

Resolution 1: Approval of Kupe Sale Transaction [ordinary resolution]

"THAT, subject to Resolution 2 being passed, the Kupe Sale Transaction, as described in the Explanatory Notes contained in the Notice of Special Meeting, be approved for the purposes of rule 9.2.1 of the NZX Main Board/Debt Market Listing Rules."

Resolution 2: Approval of Kupe Sale Transaction [special resolution]

"THAT, subject to Resolution 1 being passed, the Kupe Sale Transaction, as described in the Explanatory Notes contained in the Notice of Special Meeting, be approved for the purposes of section 129 of the Companies Act 1993, rule 9.1.1(b) of the NZX Main Board/Debt Market Listing Rules and all other purposes."

Voting restrictions

Listing Rule 9.3.1 disqualifies Genesis Energy, the Genesis Purchaser and their associated persons [as defined in the Listing Rules] from voting on Resolution 1. If Genesis Energy, the Genesis Purchaser or any associated person of either of them is a New Zealand Oil & Gas shareholder at the time of voting on Resolution 1, they will be disqualified from voting on Resolution 1. As at the date of this Notice of Special Meeting, the Board is not aware of any person who is disqualified from voting in this way.

Attendance and voting

Your rights to vote may be exercised by:

In Person:

attending and voting in person; or

Postal Voting:

casting a postal vote. The Board has determined that postal voting is permitted. Postal voting instructions are included in the Voting Card which accompanies this Notice of Special Meeting. You can cast a postal vote online, or complete and send the Voting Card by post, email [as a scanned attachment] or fax so that your vote is received by Computershare Investor Services Limited no later than 9am on Wednesday 14 December 2016; or

By Proxy:

appointing a proxy [or representative] to attend and vote in your place. Your proxy need not be a shareholder of the Company. The form of appointment of a proxy and voting instructions accompany this Notice of Special Meeting. You can appoint a proxy online or complete and send the Voting Card by post, email [as a scanned attachment] or fax so that it is received by Computershare Investor Services Limited by no later than 9am on Wednesday 14 December 2016.

On behalf of the Board:

Ralph Noldan
General Counsel / Company Secretary

23 November 2016

See Explanatory Notes on pages 6 to 15 of this document and the additional information set out below.

Figure 1. Location of the Kupe field and production station

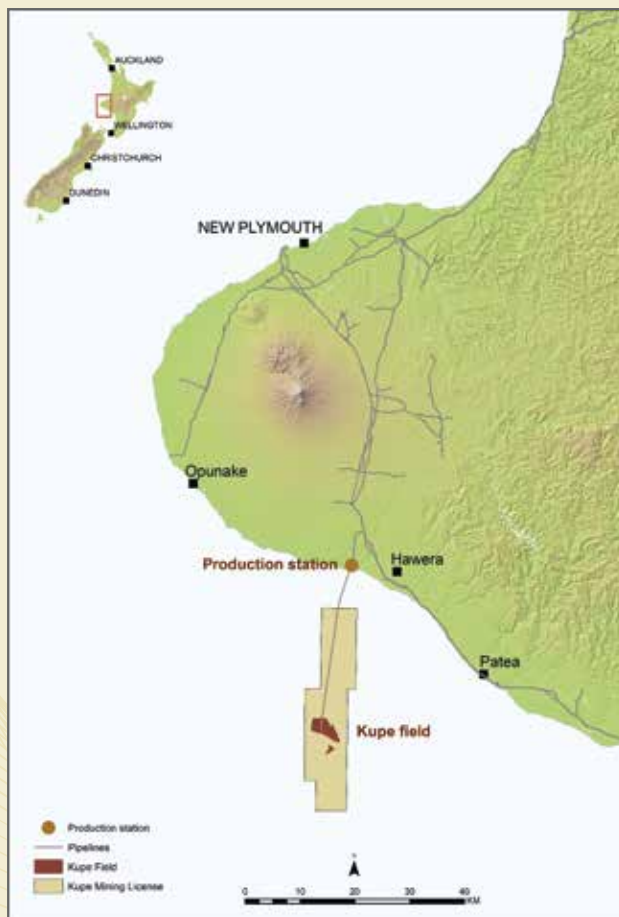
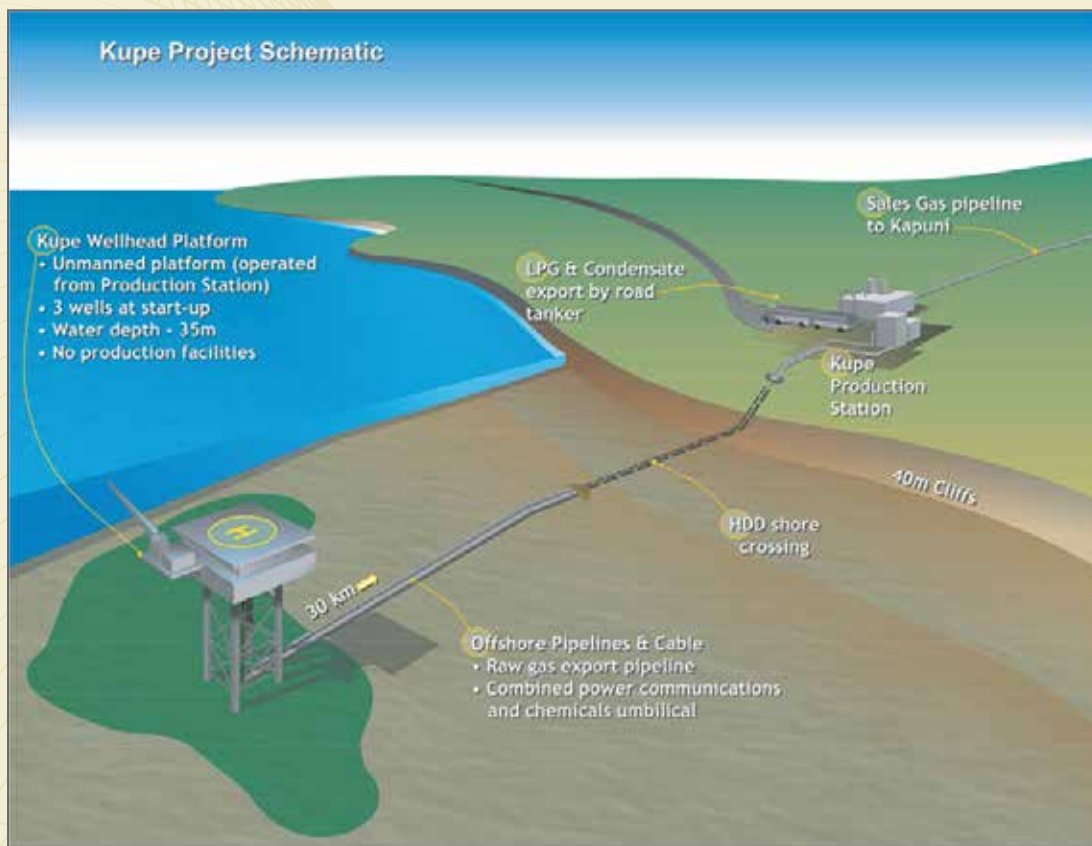


Figure 2. Kupe development schematic.



NEW ZEALAND OIL & GAS LIMITED

IMPORTANT INFORMATION

THIS DOCUMENT WILL ASSIST YOU, AS A SHAREHOLDER OF NEW ZEALAND OIL & GAS, TO DECIDE WHETHER TO APPROVE THE RESOLUTIONS SET OUT ON PAGE 1 OF THIS DOCUMENT AND DETAILED IN THE EXPLANATORY NOTES.

The Board of New Zealand Oil & Gas recommends that you vote in favour of the resolutions.

The directors of New Zealand Oil & Gas intend to vote any shares that they control in favour of the resolutions.

If you do not plan to attend the Special Meeting you are urged to use the online voting facility or to complete and return the Voting/Proxy Card as soon as possible.

If you have any questions, our shareholder information lines are:

Michael Dunn, Investor Relations Executive

[04] 495 2423 [within New Zealand]

+64 4 495 2423 [outside of New Zealand]

or

email to: enquiries@nzog.com

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In this Notice of Special Meeting we have included:

- a letter from the Chairman on page 5; and
- Explanatory Notes on pages 6 to 15. These notes contain an explanation of the resolutions and their effects.

An Appraisal Report prepared by Northington Partners Limited in relation to Resolution 1 accompanies this Notice of Special Meeting. Shareholders should read this Appraisal Report in full in conjunction with this Notice of Special Meeting.

The contents of the Explanatory Notes are:

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Unless otherwise stated, information in this Notice of Special Meeting is stated as at the date of this Notice of Special Meeting.

Defined Terms

In this Notice of Special Meeting certain defined terms have been used as follows:

Appraisal Report means the appraisal report prepared by Northington Partners Limited in relation to the Kupe Sale Transaction and enclosed with this Notice of Special Meeting;

Board means the board of directors of New Zealand Oil & Gas Limited;

Companies Act means the Companies Act 1993;

Genesis Energy means Genesis Energy Limited, the parent company of the Genesis Purchaser;

Genesis Purchaser means Genesis Power Investments Limited;

Kupe Companies means New Zealand Oil & Gas' wholly owned subsidiaries National Petroleum Limited, Nephrite Enterprises Limited, Petroleum Equities Limited and Kupe Royalties Limited;

Kupe Field or **Kupe** means the gas, LPG and light oil/condensate field that lies in the offshore Taranaki basin, in relation to which the Kupe Permit has been issued;

Kupe Joint Venture means the joint venture in relation to the Kupe Field and the Kupe Permit, carried on under the "Joint Venture Operating Agreement – PML 38146" dated 14 October 1982, as amended from time to time;

Kupe Permit means Petroleum Mining Licence 38146 granted under the Petroleum Act 1937;

Kupe Sale Transaction means the proposed sale of the Kupe Companies, as described in the Explanatory Notes;

Listing Rules means the NZX Main Board/Debt Market Listing Rules;

New Zealand Oil & Gas or **the Company** means New Zealand Oil & Gas Limited;

New Zealand Oil & Gas Group means New Zealand Oil & Gas and each of its subsidiaries;

NZSX means the main board equity security market operated by NZX;

NZX means NZX Limited; and

Special Meeting means the special meeting of shareholders, and any adjournment of that meeting, to be held to consider and, if thought fit, approve the Kupe Sale Transaction.

CHAIRMAN'S LETTER

Dear shareholder

Kupe has been a highly successful investment for the Company, with a long history. It is also an asset that dominates our asset portfolio. We have for some time desired to diversify our portfolio.

The Board received an offer for New Zealand Oil & Gas' interests in the field from Genesis Energy at a very favourable price. We have worked hard to develop these proposals into a package which could be put to shareholders for consideration.

The Board believes the offer to be fully priced – it is at the higher end of the Board's valuation range for our Kupe interests and exceeds the high end of the valuation range calculated by Northington Partners as set out in section 5.2.5 of their Independent Appraisal Report. The Board recommends approval of this transaction and directors who own or control shares in the Company intend to vote in favour.

If passed, the resolutions in this notice will authorise this transformative transaction. There are a number of other conditions to work through, but shareholder approval will provide a framework for the transaction to proceed, hopefully without delay.

If the transaction proceeds, the Board intends to return NZ\$100 million to shareholders in 2017. The Board is considering a number of options for returning this surplus capital to shareholders. Returning such a large sum to shareholders is significant but will not prevent the Company from continuing to pursue value enhancing opportunities in a way that leads to improved diversification for the Company.

The Genesis Energy offer has allowed the opportunity to realise exceptional value from our Kupe investment. As I stated at the Shareholders' Annual Meeting this year, we like Kupe and have worked hard to bring the Kupe Joint Venture parties along in evaluating the potential of this asset. Having such an excellent offer for our Kupe interests is a reflection of our hard work over the past 3 years.

Since announcement of the Kupe Sale Transaction, the Company's share price has surged 23 percent from NZ\$0.50 to NZ\$0.615 as at 22 November 2016. If the resolutions are not approved, there is a risk that the share price will revert to the pre-announcement price.

I urge you to support this proposal and to read this notice of meeting in full and also the accompanying Independent Appraisal Report from Northington Partners Limited.

Yours sincerely



Rodger Finlay
Chairman

EXPLANATORY NOTES

Resolutions for Approval of Kupe Sale Transaction

1. Details of transaction

OVERVIEW

The Kupe Field is a gas, LPG and light oil/condensate field that lies in the offshore Taranaki basin. New Zealand Oil & Gas holds a 15% interest in the Kupe Permit, which provides for the right to mine for oil, LPG and gas in the Kupe Field. New Zealand Oil & Gas also has a 15% participating interest in the Kupe Joint Venture, under which the Kupe Field is developed and operated.

The remaining interests in the Kupe Permit and Kupe Joint Venture are held by Origin Energy [50%], Genesis Energy [31%] and Mitsui E&P [4%]. Origin Energy is the operator of the Kupe Joint Venture.

The Company's 15% interest in the Kupe Permit and Kupe Joint Venture is held through three of its wholly owned subsidiary companies, National Petroleum Limited, Nephrite Enterprises Limited and Petroleum Equities Limited. A fourth wholly owned New Zealand Oil & Gas subsidiary, Kupe Royalties Limited, receives overriding royalty payments from Genesis Energy and Origin Energy in relation to oil, LPG and gas produced from Kupe.

On 16 November 2016 New Zealand Oil & Gas entered into a conditional sale and purchase agreement with Genesis Power Investments Limited (the "Genesis Purchaser"), a wholly owned subsidiary of Genesis Energy. The agreement provides for sale by New Zealand Oil & Gas of 100% of the shares in each of the four subsidiaries named above (the "Kupe Companies") for a total purchase price of NZ\$168 million. The Kupe Companies hold no assets other than their respective interests relating to the Kupe Permit and Kupe Joint Venture, and related assets such as working capital and the overriding royalty interest. The sale and purchase agreement is conditional on, among other things, the approval of New Zealand Oil & Gas shareholders by way of the ordinary and special resolutions set out on page 1 of this Notice of Special Meeting.

If approved, New Zealand Oil & Gas and Genesis have targeted completion of the Kupe Sale Transaction by 1 January 2017 (subject to satisfaction or waiver of other conditions).

If the resolutions are not approved the Kupe Sale Transaction will not proceed. See section 10 below where the impact of non-approval is discussed.

KEY TRANSACTION TERMS

Key features of the Kupe Sale Transaction are:

- New Zealand Oil & Gas will transfer all of the shares in the Kupe Companies to the Genesis Purchaser for a total consideration of NZ\$168 million.
- The consideration is subject to adjustments to reflect the external debt and net working capital position of the Kupe Companies at completion and a further wash up (and adjustment of consideration) as described below.
- Following the Kupe Sale Transaction, the New Zealand Oil & Gas Group will have no remaining interest in the Kupe Field or the overriding royalty arrangements with Genesis Energy and Origin Energy.
- The transaction is conditional on:
 - approval by New Zealand Oil & Gas shareholders by 31 December 2016 (this is the approval sought at the Special Meeting);

- the consent of the Minister of Energy and Resources under the Petroleum Act 1937 by 31 May 2017;
- there being no physical events or circumstances outside the control of the parties affecting the Kupe Joint Venture assets and having a material adverse effect on the value of the Kupe Companies and their business equal to at least 15% of the purchase price [NZ\$25.2 million], before completion; and
- New Zealand Oil & Gas' title and capacity warranties remaining true up to completion.

If the above conditions are not satisfied by their due dates, or any extended dates agreed by the parties, the transaction may be cancelled (by any party in the case of the first two and by the Genesis Purchaser in the case of the last two). The last two conditions listed above may be waived by the Genesis Purchaser.

- The Genesis Purchaser also has the right to terminate the Kupe Sale Transaction if:
 - the Board withdraws or modifies its recommendation of the transaction or indicates an intention to do so or to reconsider; or
 - any director indicates an intention not to vote any shares they control in support of the resolutions or withdraws a statement of intention to vote in support.
- Completion of the transaction is targeted to occur on 1 January 2017 or, if later, five business days after all conditions are satisfied or waived.
- If completion occurs after 1 January 2017, there are provisions designed to ensure that the economic benefits of ownership of the Kupe Companies will accrue to the Genesis Purchaser as from 1 January 2017. There is also provision for interest to be paid by the Genesis Purchaser on the purchase price if completion occurs after 1 January 2017.
- If the transaction proceeds as planned, New Zealand Oil & Gas will receive the purchase consideration on the completion date, with an adjustment for any difference in the external debt and net working capital position of the Kupe Companies as at completion, against the position estimated in advance of completion, within approximately 10 weeks after the completion date.
- Genesis Energy has guaranteed the obligations of the Genesis Purchaser under the agreement for the transaction.
- New Zealand Oil & Gas is providing warranties to the Genesis Purchaser relating to title and capacity to sell, accuracy of information provided to Genesis Energy, contracts and business, regulatory compliance, taxation and there being no material adverse events of certain types affecting the Kupe Joint Venture assets.
- There will be a further wash-up and adjustment of consideration which will occur in 2017, to reflect final LPG prices under the LPG supply agreement, final Crown royalty payments and final overriding royalty payments.

2. What is the recommendation of the Board?

The Board recommends the Kupe Sale Transaction to shareholders for approval and encourages all shareholders to vote in favour of Resolutions 1 and 2. In the Board's view the Kupe Sale Transaction is in the best interests of New Zealand Oil & Gas and its shareholders.

3. Why is the Board recommending approval?

The Board recommends approval of the Kupe Sale Transaction because the offered price is at the higher end of the Board's view of the asset's value, because the transaction should materially increase the New Zealand Oil & Gas share price and because the ability to reinvest some of the cash brings a potential for improved diversification of the Company's asset base.

The value of the Company's interests in Kupe varies depending on possible future scenarios for production rates, field reserves, product prices and costs. Value is a judgement call based on a balance of possible future outcomes. The Board has considered various possible future scenarios, both upside and downside relative to a best estimate, and formed its recommendation on that basis. The present value of these future scenarios was calculated using the discounted cash flow methodology.

Essentially, the Board considers that the offered price allows New Zealand Oil & Gas shareholders to realise full value from the Company's interests in Kupe, plus a significant portion of the potential upside, all at an appropriate discount rate and without taking further risk.

The Board also notes that the purchase price, for the Company's Kupe interests alone (NZ\$168 million), is in excess of the entire market capitalisation of the Company as at the close of the trading day before the Kupe Sale Transaction was announced (NZ\$159 million). In addition to owning the Kupe interests, New Zealand Oil & Gas also holds significant cash (approximately NZ\$70 million as at 30 September 2016), a 49.6% shareholding in Cue Energy Resources Limited (valued at approximately NZ\$32 million) as at 21 November 2016, as well as exploration interests in New Zealand and exploration and potential development interests in Indonesia. This means shareholders should see a material uplift in the share price if the Kupe Sale Transaction proceeds, relative to the price prevailing prior to the proposed Kupe Sale Transaction being announced.

The Board has obtained an independent Appraisal Report from Northington Partners, assessing the Kupe Sale Transaction. This report supports the Board's view and is enclosed with this Notice of Special Meeting. In this report Northington Partners have confirmed the offered price is above the higher end of their valuation range for the Company's interests in Kupe (see, in particular, section 5.2.5 of the report).

As at 30 June 2016 New Zealand Oil & Gas held its Kupe interests in its books at NZ\$133.2 million, with a net carrying value of approximately NZ\$82.6 million (see section 5). If the transaction had occurred on 30 June 2016, the Kupe Sale Transaction would have resulted in an estimated gain on sale of assets of approximately NZ\$89.4 million. The actual gain on sale will depend on the net carrying amount at completion. As the recommended transaction is a sale of shares in subsidiary companies there is no tax on receipt of the purchase price (see section 6).

In addition to the offer price being at the higher end of the Board's view of the Kupe asset's value, the Board considers that there are other potential production assets that are likely to be available for sale that New Zealand Oil & Gas could acquire for

value under the current market conditions. This could allow the Company to lever the current market conditions and diversify its asset base (see section 7).

It is proposed in section 7 that NZ\$100 million in capital would be returned to shareholders in 2017, giving shareholders an immediate gain. It is also recognised that New Zealand Oil & Gas may not be able to acquire replacement production assets at value and may return further capital to shareholders. While there are no imputation credits gained by the Kupe Sale Transaction (because no tax is paid), this should not act as an impediment to a reasonable return of capital to shareholders.

The proposed acquisition of the Company's Kupe interests is by the Genesis Purchaser, a subsidiary of Genesis Energy. Genesis Energy is guaranteeing the Genesis Purchaser's obligations under the Kupe Sale Transaction.

Genesis Energy is a substantial listed utility company, which owns and operates a portfolio of thermal generation and renewable generation assets in different parts of New Zealand. It also has a retail business with New Zealand's largest electricity and gas customer base. Genesis is majority owned by the New Zealand government. The risk of the Genesis Purchaser not paying the purchase price is not considered significant and is mitigated in the sale and purchase agreement (i.e. the transaction would not occur if the price is not paid, and Genesis Energy guarantees the payment obligations). There are no identified reputation risks in dealing with Genesis Energy.

4. Background on Kupe

The Kupe gas field was discovered by New Zealand Oil & Gas in 1986. The gas is 3 km below the sea bed in the Farewell Formation, located 30 km offshore South Taranaki and in 35 meters of water. The discovery is within petroleum mining licence PML 38146. Its location is shown in figure 1.

Development of the discovery was not economic under the then New Zealand gas market conditions, which were dominated by the Maui gas field at the time. Therefore, the Kupe discovery remained undeveloped for some years, during which the participants of the Kupe Joint Venture changed.

Development of the Kupe discovery became economic as the Maui gas field depleted. By the time of development, the current form of the Kupe Joint Venture had evolved, with interests held as follows:

- New Zealand Oil & Gas at 15%;
- Origin Energy at 50%;
- Genesis Energy at 31%; and
- Mitsui E&P at 4%.

Origin Energy is the operator of the Kupe Joint Venture, which means they manage the operation of the facilities.

New Zealand Oil & Gas, Origin Energy and Genesis Energy all own their interest in the Kupe field via wholly owned subsidiaries. The New Zealand Oil & Gas subsidiaries are National Petroleum Limited, Nephrite Enterprises Limited and Petroleum Equities Limited.

As part of the process of changing its interest in the permit over the years to the current level, New Zealand Oil & Gas retained an overriding royalty interest over 30% of the participating interest held by the other joint venture parties. Through these agreements New Zealand Oil & Gas receives a portion of the revenue of the other joint venture participants. These agreements are held by a wholly owned subsidiary of New Zealand Oil & Gas called Kupe Royalties Limited.

To enable the investment in the development, New Zealand Oil & Gas signed a long-term gas supply agreement with Genesis Energy and a long-term LPG supply agreement with Vector [OnGas]. The final investment decision was made in July 2006, committing to construction of the plant.

The plant consists of three wells, an unmanned offshore platform, 30 km of pipe and cable on the sea bed, an underground shore crossing and an onshore production plant. The production plant separates the fluid into reticulation specification gas, LPG and condensate [light oil]. The gas is piped to the North Island gas transmission system, LPG is trucked to North Island customers or to Port Taranaki for shipping to the South Island, and the condensate is trucked to Port Taranaki for shipping to an oil refinery. This is illustrated in figure 2.

The total cost of the project was NZ\$1.3 billion with New Zealand Oil & Gas responsible for 15% of the costs. Commercial production commenced in December 2009, with a plant capacity of up to 70 terajoules of gas per day.

New Zealand Oil & Gas has rights to 15% of the production products and gains revenue from the sale of gas, oil and LPG, and additional revenue through the overriding royalty interest. These revenues have been reported in the Company's annual reports.

New Zealand Oil & Gas pays its 15% share of the operator's costs of running the Kupe Joint Venture and pays the Crown a 12.5% royalty on the Company's profits under the Petroleum Act 1937 [these profits are calculated differently than in the annual reports]. The Company is also liable for 15% of the eventual decommissioning and reinstatement costs and has a provision of NZ\$29.5 million for this in its accounts as at 30 June 2016.

The original project development plan envisioned an additional phase of development to add onshore gas compression and further wells. The 2P reserves [probable reserves, with a 50% chance or better of being technically and economically producible] are thus split into two categories: 'developed', or able to be produced with the current facilities; and 'undeveloped' so requiring additional capital investment to be accessed. Therefore, when looking at the future cash flows from Kupe, the undeveloped reserves will require additional capital expenditure.

Since commissioning, the field performance has exceeded expectations with increases in anticipated recoverable reserves. This improved field performance enabled a temporary increase in production capacity in 2013 to 77 terajoules of gas per day. Additionally, the improved field performance will inform the optimum phase two development, which is now anticipated to be later and cheaper than originally envisioned.

5. Impact of the Kupe Sale Transaction on the Company

General

The Kupe Sale Transaction will result in the sale of the majority of New Zealand Oil & Gas' assets, in exchange for cash. The transaction will clearly be transformative for the Company, as it will mean the bulk of New Zealand Oil & Gas' assets will subsequently be held in cash. Section 7 provides shareholders with information on the Board's intentions for this additional cash.

The Kupe Sale Transaction will eliminate a material element of earnings, cash from operations and oil and gas assets from the New Zealand Oil & Gas Group. Following the Kupe Sale

Transaction, the New Zealand Oil & Gas Group will continue to generate earnings from its remaining assets – the Tui field interest, its 49.6% share of Cue Energy Resources Limited [as at 21 November 2016] and its significantly increased cash reserves.

The Kupe Sale Transaction will effectively remove the New Zealand Oil & Gas Group's ability in future to gain tax relief in relation to its New Zealand exploration expenditure and corporate costs, as the sole remaining oil and gas asset [Tui] is not forecast to generate taxable income in the current low oil price environment. The reduction in cash earnings and taxable income from future operations is dependent on whether or not the Company purchases income producing assets in the future, as discussed in section 7.

Further discussion of the general impact of the Kupe Sale Transaction on the Company is set out in section 6 of Northington Partners' Appraisal Report.

Pro-forma summary financial information

The following section contains unaudited pro-forma summary financial information, which is provided to assist shareholders in understanding the financial position, financial performance and cash flows of the New Zealand Oil & Gas Group post the proposed Kupe Sale transaction.

The audited consolidated financial statements for the New Zealand Oil & Gas Group for the year ended 30 June 2016 have been used to present the pro-forma summary financial information. The audited consolidated financial statements at 30 June 2016 include the New Zealand Oil & Gas Group's 15% interest in Kupe.

The pro-forma summary financial information below is presented to give an indication of what the New Zealand Oil & Gas Group's statement of consolidated financial position, financial performance and cash flows would have been had the sale of the Kupe Companies been completed on 30 June 2016. Although this represents an historical position, it provides a useful indication of the impact on the New Zealand Oil & Gas Group pre and post the proposed sale of the Kupe Companies.

SUMMARY OF FINANCIAL POSITION AS AT 30 JUNE 2016

	Group (Previously Reported)	Pro Forma Adjustments		Pro Forma Group
		Note b(i)	Note b(ii)	
Assets				
Cash and cash equivalents	96,811	-5,699	172,073	263,185
Receivables and prepayments	13,156	-6,580		6,576
Inventories	9,166	-868		8,298
Asset held for sale	2,088			2,088
Exploration and evaluation assets	14,580			14,580
Oil and gas assets	207,937	-133,236		74,701
PPE	193			193
Other intangible assets	1,042			1,042
Other financial assets	1,891	-42		1,849
Total Assets	346,864	-146,425	172,073	372,512
Liabilities				
Payables	17,399	-8,916		8,483
Current tax liabilities	3,175			3,175
Borrowings	1,137			1,137
Restoration and rehabilitation provision	79,006	-29,502		49,504
Other provisions	6,350			6,350
Deferred tax liability	18,597	-25,359		-6,762
Total Liabilities	125,664	-63,777	-	61,887
Net Assets	221,200	-82,648	172,073	310,625
Equity				
Share capital	318,089			318,089
Reserves and retained earnings	-110,331		89,425	-20,906
Non-controlling interest in subsidiaries	13,442			13,442
Total Equity	221,200	-	89,425	310,625

All numbers are quoted in NZ dollars and 000's

SUMMARY OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2016

	Group (Previously Reported)	Pro Forma Adjustments		Pro Forma Group
		Note b(iii)	Note b(ii)	
Revenue	119,028	-49,936		69,092
Operating costs	-48,252	11,904		-36,348
Exploration Expenditure	-21,504	17		-21,487
Other income	6,628	-2,367		4,261
Other expenses	-17,581	617		-16,964
Results from operating activities excluding amortisation, impairment and net finance costs	38,319	-39,765	-	-1,446
Amortisation of production assets	-48,944	21,176		-27,768
Asset impairment	-26,605	-		-26,605
Net finance income/(costs)	-3,807	886		-2,921
Loss before tax from continuing operations	-41,037	-17,703	-	-58,740
Tax (expense) / credit	-3,422	7,771		4,349
Royalties expense	-4,017	2,276		-1,741
Loss after tax from continuing operations	-48,476	-7,656	-	-56,132
Gain / (Loss) after tax from discontinuing operations	-3,318	7,656	89,425	93,763
Gain / (Loss) for the year	-51,794	-	89,425	37,631
Loss attributable to non-controlling interest	-22,031			-22,031
Gain / (Loss) after tax attributable to shareholders of the Group	-29,763	-	89,425	59,662

All numbers are quoted in NZ dollars and 000's

STATEMENT OF CASH FLOW FOR THE YEAR ENDED 30 JUNE 2016

	Group (Previously Reported)	Pro Forma Adjustments		Pro Forma Group
		Note b(iv)	Note b(ii)	
Receipts from Customers	136,840	-50,909		85,931
Production and marketing expenditure	-46,082	11,760		-34,322
Income taxes paid	-11,827	6,207		-5,620
Royalties paid	-6,349	2,484		-3,865
Other	-16,387	864		-15,523
Net cash inflow/(outflow) from operating activities	56,195	-29,594	-	26,601
Exploration and evaluation expenditure	-23,466	-17		-23,483
Oil and gas asset expenditure	-11,508	3,406		-8,102
Other investing expenditure	-170			-170
Proceeds from sale of subsidiaries	-		172,073	172,073
Net cash inflow/(outflow) from investing activities	-35,144	3,389	172,073	140,318
Net cash inflow/(outflow) from financing activities	-1,045	-	-	-1,045
Net cash increase/(decrease) in cash and cash equivalents	20,006	-26,205	172,073	165,874

All numbers are quoted in NZ dollars and 000's

NOTES TO THE UNAUDITED PRO-FORMA SUMMARY FINANCIAL INFORMATION

a. Basis of presentation of unaudited Pro-forma summary financial information

The 'Group [Previously Reported]' column is summary financial information extracted from the New Zealand Oil & Gas Group's audited consolidated financial statements at 30 June 2016.

The unaudited consolidated pro-forma summary financial information as at 30 June 2016 reflects the New Zealand Oil & Gas Group as a "Pro-forma Group" as if the sale of the Kupe Companies had occurred as at that date. Upon the sale of the Kupe Companies, the New Zealand Oil & Gas Group de-recognises the assets and liabilities of the disposed subsidiaries and any other components of equity related to the subsidiaries. Any surplus or deficit arising on sale is recognised in profit or loss.

All intra-group balances recorded within the Kupe Companies have been excluded in preparing the pro-forma summary financial information as they were previously eliminated on consolidation of the New Zealand Oil & Gas Group.

The unaudited consolidated pro forma summary financial information of the New Zealand Oil & Gas Group is presented in New Zealand dollars rounded to the nearest thousand unless otherwise stated and has been prepared in accordance with the accounting policies of the New Zealand Oil & Gas Group which are available in the Company's Annual Report for the year ended 30 June 2016 on its website at <http://www.nzog.com/investor-information/company-reports/annual-reports/>.

b. Notes to the Pro-forma Adjustments made in preparing the unaudited pro forma balance sheet

- (i) The Pro Forma Adjustments discloses the de-recognition of assets and liabilities associated with the Kupe Companies and include:
- Deduction of working capital balances (cash, receivables, prepayments, inventories, other financial assets and payables) arising from its interest in the Kupe Joint Venture which are transferred on sale.
 - Elimination of the carrying value of the Kupe oil and gas assets (recorded at cost) and the associated rehabilitation provision and deferred tax balances.
 - As the New Zealand Oil & Gas Group is able to utilise tax losses and provisional tax payments the current tax obligations within the Kupe Companies are not presented above as they eliminate on consolidation.

Note: The Pro Forma summary financial position presents a net deferred tax asset post the sale of the Kupe Companies. A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which they can be utilised. A full assessment of the future tax profits for the New Zealand Oil & Gas Group has not been performed at this stage and the utilisation of the net deferred tax asset post the proposed sale of the Kupe Companies has not been quantified.

- (ii) The Pro Forma Adjustments in presenting the cash consideration and indicative gain on sale presents the receipt of cash anticipated from the sale of the Kupe Companies and an indicative resulting gain on sale. The gain on sale presented above is an illustration only of what the gain on sale would have been had the sale been completed on 30 June 2016, and is based on the net assets of the Kupe Companies as at that date. It also assumes a sale price of

NZ\$168 million plus net working capital of NZ\$4.3 million and an estimate of transaction costs of NZ\$200,000. The final gain on sale recorded on the Kupe Sale Transaction will differ from the example presented as it is dependent on the net carrying value of the Kupe Companies' assets at the date of the proposed transaction and the actual transaction costs incurred.

The Pro Forma Adjustments made in preparing the unaudited consolidated Pro Forma Group summary of financial performance has been presented to disclose the discontinued operation [Kupe] separately from the New Zealand Oil & Gas Group's continuing operations. The Pro Forma Adjustments reflect the financial performance of the Kupe Companies excluding intercompany transactions for the year ended 30 June 2016.

- (iii) There was no cumulative income recognised in other comprehensive income relating to Kupe at 30 June 2016.
- (iv) The Pro Forma Group summary statement of cash flow has been presented to disclose the cash flows of the discontinued operation [Kupe] separately from the New Zealand Oil & Gas Group's continuing operations. The Pro Forma Adjustments reflect the external cash flows of Kupe Companies for the year ended 30 June 2016. For the purpose of presenting the Pro Forma Group an adjustment for income taxes paid of NZ\$6,207,000 has been included in the discontinued operation to reflect the actual tax obligation incurred by the Kupe Companies as a stand-alone group, after utilisation of any New Zealand Oil & Gas Group tax losses.

No other adjustments have been made in the pro forma financial information that may arise as part of the disposal of the Kupe Companies.

Forecast information

The New Zealand Oil & Gas Group has chosen not to provide forecast financial information in this Notice of Special Meeting in respect of the Pro Forma Group, as the New Zealand Oil & Gas Group does not believe it has a reasonable basis on which to make forecasts of future performance.

Full group financial statements

A full copy of the audited consolidated financial statements for the New Zealand Oil & Gas Group for the year ended 30 June 2016 is available at <http://www.nzog.com/investor-information/company-reports/annual-reports/>.

6. Tax considerations

Tax implications for New Zealand Oil & Gas

The proposed divestment is by way of a sale of all of the shares in the Kupe Companies. The sale of shares is a non-taxable transaction.

The Kupe Companies contributed all of the New Zealand Oil & Gas Group's taxable income in 2016 in New Zealand. This is by way of the profitable sale of petroleum products in the form of gas, LPG and oil.

Following the sale of the Kupe Companies, the sole remaining New Zealand producing asset owned by the New Zealand Oil & Gas Group will be the Tui petroleum mining permit [PMP 38158]. The Tui asset is a late life production asset that is currently not generating taxable income and is not forecast to generate taxable income in the foreseeable future as a result of the low oil price.

As a consequence of the Kupe Sale Transaction, the New Zealand Oil & Gas Group will lose its ability to obtain an immediate tax benefit in relation to its New Zealand corporate and exploration costs, unless the Company is successful in acquiring a New Zealand producing asset that will generate significant taxable income or there is a significant oil price recovery.

An additional consequence of the Kupe Sale Transaction is that imputation credits will no longer be generated, as no tax is forecast to be paid.

Tax implications for shareholders

The Kupe Sale Transaction will have no impact on shareholders' tax affairs, but shareholders are encouraged to seek advice from their personal financial and tax advisors.

7. Future plans

The strategy for New Zealand Oil & Gas, as outlined by the Chairman at the Annual Shareholders' Meeting held on 27 October 2016, is to maximise value for shareholders through:

- return of capital to shareholders;
- ensuring overheads are controlled; and
- remaining alert for acquisition opportunities.

If the resolutions are approved and the Kupe Sale Transaction proceeds, then given the Board's stated priorities it is natural that with monetisation of a major asset the return of capital to shareholders will be enhanced. To this end, it is the Board's intention to return NZ\$100 million to shareholders in calendar year 2017.

In the meantime, the Company will redouble efforts to find acquisitions at value, with several opportunities already under review.

Even after the return of NZ\$100 million is made in 2017 there will remain sufficient funds to both continue the work programs New Zealand Oil & Gas is currently involved in and undertake targeted acquisitions.

Without the 15% Kupe interest, New Zealand Oil & Gas is a very different company, and the Company's organisational structure will be reviewed to ensure the right skill sets are available for the tasks the Company will be undertaking, and overheads will be reviewed to ensure that they are appropriate to support our changing goals.

New Zealand Oil & Gas has not ruled out investing in the Kupe Permit again, if an appropriate opportunity arises. New Zealand Oil & Gas knows the Kupe Field well, and believes there is potential for considerable residual value to be derived from the field.

8. Key risks of the Kupe Sale Transaction

The Board considers the Kupe Sale Transaction to be a relatively low risk transaction, given it involves the realisation of assets for cash. There are, however, some risks arising in relation to the transaction itself, and out of the Company's position if the transaction is completed, which are drawn to shareholders' attention in this section.

Risks in relation to the Kupe Sale Transaction itself

There is a risk that the Kupe Sale Transaction could be delayed, in particular if conditions of the transaction (e.g. the consent of the Minister of Energy and Resources) are not satisfied within the expected timeframes. This would delay the receipt of cash proceeds from the transaction. In addition, under the terms of

the transaction, the economic benefits of ownership of the Kupe Companies will accrue to the Genesis Purchaser as from 1 January 2017. Delay after this date will result in the loss of economic benefits which would otherwise accrue from the Kupe assets, although this is mitigated by interest to be paid by the Genesis Purchaser on the purchase price, if completion occurs after 1 January 2017.

The Kupe Sale Transaction could also be cancelled if conditions are not met. Cancellation could, for example, occur if:

- the resolutions are not passed at the Special Meeting;
- the Minister of Energy and Resources does not consent to the transaction; or
- there is a physical event affecting the Kupe Joint Venture assets with an adverse effect on the value of the Kupe Companies exceeding 15% of the purchase price.

The Company is seeking to mitigate these delay and cancellation risks by working closely with the Genesis Purchaser to progress satisfaction of the conditions.

There is also potential for the Company to be sued if it is found to have breached warranties given in relation to the Kupe Companies and their business. The Company has sought to mitigate this risk by careful consideration of, and due diligence in connection with, the warranties given.

Risks arising if Kupe Sale Transaction is completed

As mentioned in section 5 above, the Kupe Sale Transaction will result in a reduction in cash earnings and taxable income from future operations. The Company is planning to mitigate this effect, by seeking out acquisitions which will contribute to future earnings, as outlined in section 7.

If the Company is not successful in acquiring income producing assets, then:

- it may lose the ability to gain tax relief in relation to its New Zealand exploration expenditure and corporate costs; and
- its ability to attach imputation credits to any dividends that it might pay may be affected.

More detail on these potential effects is provided in section 6 of Northington Partners' Appraisal Report.

9. Consequences if the resolutions are approved

If the resolutions are approved by the requisite majorities, a key condition of the Kupe Sale Transaction will be satisfied. The other key conditions to completion of the Kupe Sale Transaction are described in section 1 under the "Key transaction terms" heading.

If the other conditions to completion of the Kupe Sale Transaction are satisfied or waived, and no termination rights arise, the parties will be bound to complete the Kupe Sale Transaction. The key implications of successful completion of the Kupe Sale Transaction are outlined above in sections 5 [Impact of the Kupe Sale Transaction on the Company] and 7 [Future Plans].

If any of the other conditions of the Kupe Sale Transaction are not met, or the Kupe Sale Transaction is terminated for any other reason, then the outcome will be the same as discussed in the immediately following section.

10. Consequences if the resolutions are not approved

If the resolutions are not approved then the Kupe Sale Transaction will not proceed. In that event the Board's priority of maximising value for shareholders will remain, including maximising the value of the Company's stake in Kupe. While the return of capital discussed above will not occur, the Board intends to continue the share buyback program currently in place, carefully monitor overheads and continue to pursue value enhancing opportunities for the Company. Details of the share buy-back program are available in the Company announcement released to NZX on 10 March 2016.

As at the close of the trading day before the Kupe Sale Transaction was announced, New Zealand Oil & Gas shares were trading at NZ\$0.50. As at close of the trading day on 22 November 2016, the Company's shares were trading at NZ\$0.615, an increase of 11.5 cents or 23 percent. If the resolutions are not approved, there is a risk that the share price will revert to the pre-announcement price.

11. Listing Rules requirements

Material transaction with related party

The negotiation of the Kupe Sale Transaction has been conducted at arm's length, with both New Zealand Oil & Gas and Genesis Energy acting in their own interests. The relationship of New Zealand Oil & Gas subsidiaries and Genesis Energy subsidiaries in the Kupe Joint Venture does however result in the Kupe Sale Transaction being considered a material transaction with a related party of New Zealand Oil & Gas, in terms of Listing Rule 9.2. Key elements of this analysis are set out below.

- **Material transaction:** A material transaction under Listing Rule 9.2 includes a disposal of assets having an aggregate net value in excess of 10% of average market capitalisation. The Kupe Sale Transaction will involve such a disposal for New Zealand Oil & Gas. The average market capitalisation of New Zealand Oil & Gas for this purpose is NZ\$164 million (measured over the 20 trading days before the agreement for the Kupe Sale transaction was entered into). Even the lowest assessed value of the Kupe interests sits above 10% of this figure.
- **Related parties:** The Genesis Purchaser and Genesis Energy are parties to the Kupe Sale Transaction – the Genesis Purchaser as purchaser and Genesis Energy as guarantor of the Genesis Purchaser. The Genesis Purchaser and Genesis Energy are related parties of New Zealand Oil & Gas because New Zealand Oil & Gas subsidiaries and Genesis Energy subsidiaries are parties to the Kupe Joint Venture, a relationship which could influence decision-making in relation to New Zealand Oil & Gas. This does not mean such influence actually exists – it is enough that the influence "could" exist.

Listing Rule 9.2.1 provides that an issuer such as New Zealand Oil & Gas cannot enter into a material transaction with a related party unless the transaction is approved by ordinary resolution.

Accordingly New Zealand Oil & Gas must obtain approval of the Kupe Sale Transaction by ordinary resolution. This is the ordinary resolution identified as 'Resolution 1' on page 1 of this Notice of Special Meeting. The Kupe Sale Transaction cannot proceed if this resolution is not approved.

An ordinary resolution means a resolution approved by a simple majority of votes of shareholders entitled to vote and voting.

Voting restrictions apply to an ordinary resolution under Listing Rule 9.2.1. Any related party of New Zealand Oil & Gas that is a party to or beneficiary of the Kupe Sale Transaction, and any associated persons of that related party, is disqualified from voting. The Genesis Purchaser and Genesis Energy are parties to the Kupe Sale Transaction, and related parties of New Zealand Oil & Gas, under the analysis set out above. Associated persons include, in relation to a company, directors of that company, related companies of that company and directors of related companies of that company. This means that if the Genesis Purchaser, Genesis Energy or other companies in the Genesis Energy corporate group (or directors of any of them) are New Zealand Oil & Gas shareholders at the time of voting on Resolution 1, they will be disqualified from voting on Resolution 1.

As at the date of this Notice of Special Meeting, the Board is not aware of any shareholding in New Zealand Oil & Gas of the Genesis Purchaser, Genesis Energy or an associated person of either of them, and accordingly is not aware of any person who would be disqualified from voting.

Listing Rule 9.2.5 requires a notice of meeting for approval of a related party transaction to be accompanied by an appraisal report. An appraisal report has been prepared by Northington Partners Limited in accordance with Listing Rules 1.7 and 9.2.5 and is enclosed with this Notice of Special Meeting.

Disposal of assets

The Kupe Sale Transaction will involve a disposal of assets of New Zealand Oil & Gas in excess of 50% of New Zealand Oil & Gas' average market capitalisation. Listing Rule 9.1.1 provides that an issuer such as New Zealand Oil & Gas cannot enter into a transaction involving such a disposal except with the prior approval of shareholders by ordinary resolution, or by special resolution if a special resolution is required under the Companies Act.

In this case the Companies Act does require approval by special resolution (see below).

Accordingly New Zealand Oil & Gas must obtain approval of the Kupe Sale Transaction by special resolution. This is the special resolution identified as 'Resolution 2' on page 1 of this Notice of Special Meeting. The Kupe Sale Transaction cannot proceed if this special resolution is not approved.

A special resolution means a resolution approved by a majority of 75% of the votes of those shareholders entitled to vote and voting.

12. Companies Act requirements

Section 129 of the Companies Act provides that a company must not enter into a major transaction unless the transaction is approved by special resolution or contingent on approval by special resolution.

A major transaction includes the disposition of, or an agreement to dispose of, whether contingent or not, assets of a company the value of which is more than half the value of the company's assets before the disposition. Here, the value of the assets being disposed of is more than half the current value of New Zealand Oil & Gas' assets.

Accordingly New Zealand Oil & Gas must obtain approval of the Kupe Sale Transaction by special resolution. This is the special resolution identified as 'Resolution 2' on page 1 of this Notice of Special Meeting. This is the Companies Act requirement that triggers the need for a special resolution under Listing Rule 9.1.1, discussed above.

The Kupe Sale Transaction cannot proceed if this special resolution is not approved.

13. NZX approval

NZX has approved this Notice of Special Meeting but does not take any responsibility for any statement contained in this Notice of Special Meeting.

14. How do I make my views known?

You can make your views count by voting, either for or against the resolutions. You may cast your vote in one of three ways:

- by attending the Special Meeting on 16 December 2016;
- by casting a postal vote; or
- by appointing a proxy to vote on your behalf at the Special Meeting.

If you do not attend the meeting, exercise your postal vote or appoint a proxy, then no vote will be exercised in respect of your shareholding.

Voting by proxy

If you do not attend the Special Meeting, you may appoint a proxy. The Chairman of the meeting is willing to act as proxy for any shareholder who may wish to appoint him for that purpose.

If you select a proxy to vote on your behalf (including the Chairman), and you either:

- confer on the proxy a discretion on the Voting Card; or
- do not provide any instructions on the Voting Card about how the proxy should vote,

you acknowledge that the proxy may exercise your right to vote at his or her discretion and may vote as he or she thinks fit or abstain from voting.

In so doing you acknowledge that the proxy may exercise your right to vote even if he or she has an interest in the outcome of the relevant resolution, provided that interest does not disqualify him or her from voting under the Listing Rules.

If you appoint the Chairman as your proxy and you do not direct him how to vote on the resolutions, the Chairman will exercise any discretionary votes in favour of the resolutions.

If you appoint a proxy who is disqualified from voting on a resolution, your proxy may vote in accordance with your directions. However, if you do not give directions, that proxy must not exercise a discretionary vote in respect of the resolution.

15. Minority buy-out rights

Section 110 of the Companies Act may confer minority buy-out rights on shareholders who vote against a special resolution approving a major transaction, if the resolution is passed. The Kupe Sale Transaction is a major transaction for New Zealand Oil & Gas. Accordingly, the special resolution identified as 'Resolution 2' on page 1 of this Notice of Special Meeting is a special resolution approving a major transaction, in relation to which minority buy-out rights may arise.

For a shareholder to exercise its minority buy-out rights, the shareholder must have cast all of the votes attached to shares registered in the shareholder's name and having the same beneficial owner against resolution 2. If resolution 2 is nevertheless passed, to exercise minority buy-out rights such a shareholder must, within 10 working days of the passing of resolution 2, give written notice to New Zealand Oil & Gas

requiring that New Zealand Oil & Gas purchase the shareholder's shares.

Within 20 working days of receipt of the notice, the Board of New Zealand Oil & Gas must:

- agree to purchase the shares;
- arrange for some other person to agree to purchase the shares;
- apply to the court for an order exempting New Zealand Oil & Gas from the obligation to purchase the shares; or
- arrange for the special resolution to be rescinded by a further special resolution, or decide in the appropriate manner not to take the action concerned, as the case may be.

Written notice of the Board's decision must be given to the relevant shareholder[s].

Where the Board agrees to purchase the shares, it must give written notice to the relevant shareholder[s], within 5 working days after the notice referred to in the preceding paragraph, setting out the price the Board offers to pay for those shares. That price must be a fair and reasonable price at the close of business on the day before resolution 2 was passed, calculated using a default methodology designed to achieve a pro rata portion of the fair and reasonable value of all shares in New Zealand Oil & Gas, but adjusted to exclude any fluctuation in the value of all shares that occurred and that was due to, or in expectation of, the Kupe Sale Transaction. The Board may use a different methodology to calculate the fair and reasonable price if using the default methodology would be clearly unfair to the shareholder or New Zealand Oil & Gas (and in that case the Board must also state in the notice why calculating the price under the default methodology would be clearly unfair).

If the Board's offer is accepted by a shareholder within 10 working days after the date the Board gave notice of the price offered by the Board, New Zealand Oil & Gas must purchase the shares at the nominated price within a further 10 working days of acceptance.

A shareholder may object to the price offered by the Board by giving written notice to New Zealand Oil & Gas no later than 10 working days after the date the Board gave notice of the price offered.

If no acceptance or objection to the price offered by the Board has been received by New Zealand Oil & Gas within 10 working days after the date the Board gave notice of the price offered, New Zealand Oil & Gas must purchase the shares at the nominated price before the end of a further 10 working days.

If an objection is received by New Zealand Oil & Gas, the fair and reasonable price must be submitted to arbitration. New Zealand Oil & Gas must, within 5 working days of receiving the objection, pay on a provisional basis the price offered by the Board. The arbitration is to be conducted in accordance with the Arbitration Act 1996. If the price determined by the arbitrator:

- exceeds the provisional price paid by New Zealand Oil & Gas, then the arbitrator must order New Zealand Oil & Gas to pay the balance owing to the shareholder;
- is less than the provisional price paid by New Zealand Oil & Gas, then the arbitrator must order the shareholder to pay the excess to New Zealand Oil & Gas.

The arbitrator must award interest on any balance payable or excess to be repaid except in exceptional circumstances. If a balance is owing to the shareholders the arbitrator may award, in addition to or instead of interest, damages for loss

attributable to the shortfall in the initial payment.

If the Board arranges for some other person to agree to purchase the shares, the provisions set out in the preceding paragraphs will [with all appropriate modifications] apply to the purchase of shares by such person and, in addition, New Zealand Oil & Gas must indemnify the shareholder in respect of any losses suffered by the shareholder by reason of the failure by the person to purchase the shares at the price nominated or fixed by arbitration, as the case may be.

Please contact Michael Dunn, Investor Relations Executive [details on page 3] if you would like further information on these buy-out rights. You should also seek independent legal and financial advice if you wish to exercise these buy-out rights.



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