New Zealand Oil & Gas Limited

ACTIVITIES REPORT

FOR THE QUARTER ENDED 31 DECEMBER 2008

KEY POINTS

- NZOG elevated to NZX Top 15 Index
- Strategic stake acquired in Pan Pacific Petroleum
- 40% stake acquired in Canterbury permit
- New Taranaki acreage sought
- Kupe LPG sales agreement signed
- Total Tui production for the Quarter 2.4 million barrels
- Production underway at Pike River coal mine

DEAR INVESTOR

After a turbulent year for the business sector, the announcement in December that New Zealand Oil & Gas Ltd was to be elevated to the NZX15 Index was welcome recognition of the company's strong growth and performance.

The NZX15 Index comprises the securities of the largest and most liquid companies quoted on the New Zealand Stock Exchange. A year ago, NZOG was only just inside the Top 50, so to now be in the Top 15 is a noteworthy achievement.

It was a very active last three months of 2008 for NZOG.

In October, we entered into an agreement to acquire a 40% stake in PEP38259, which lies in the offshore Canterbury Basin. This permit contains the promising Barque prospect.

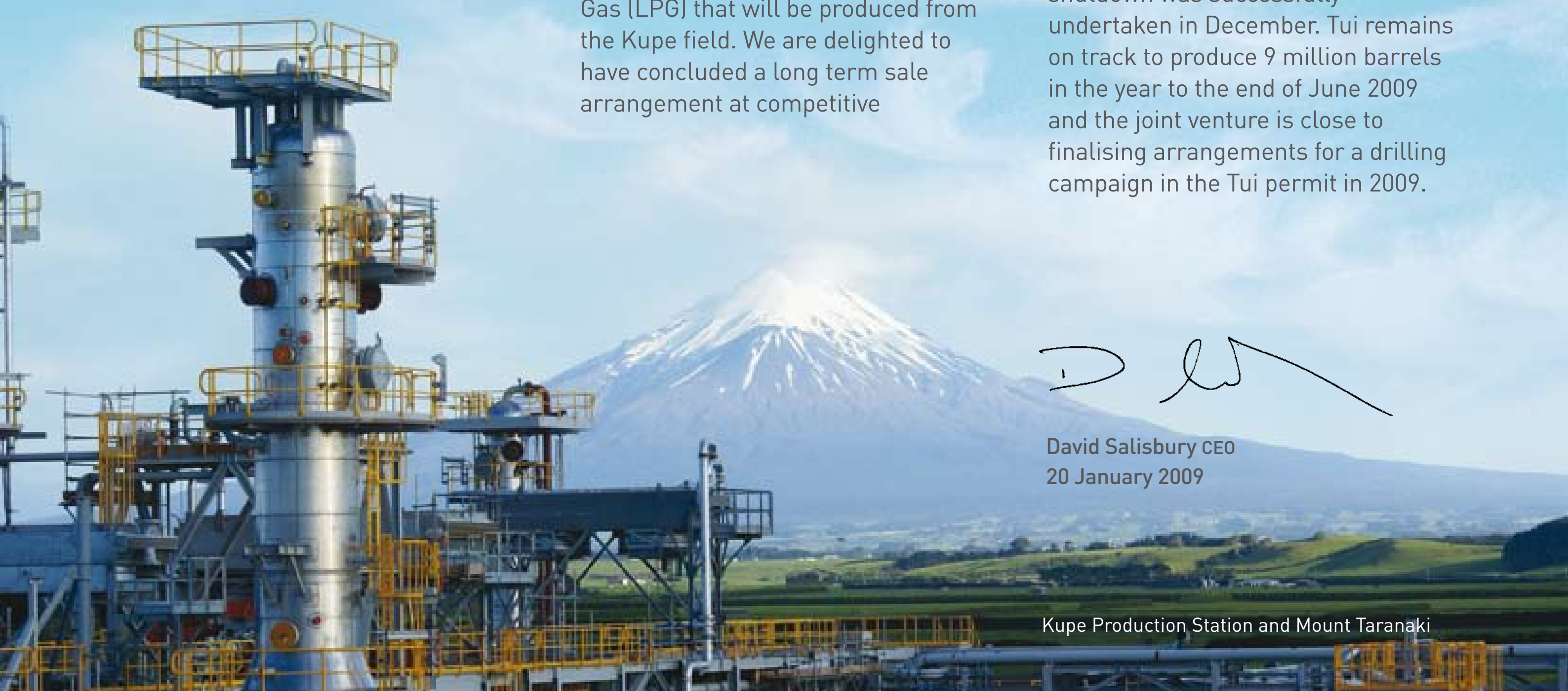
In November, we made a 100% application for acreage to the south and west of the Kupe field, and with our Tui partners made a joint application for another newly released area in offshore Taranaki.

In the same month we entered into an agreement for Vector to purchase our share of the Liquid Petroleum Gas (LPG) that will be produced from the Kupe field. We are delighted to have concluded a long term sale arrangement at competitive prices with a highly regarded business partner. Kupe itself is on track for commercial production in the third quarter of 2009.

In mid December we announced our intention to acquire a strategic stake in Pan Pacific Petroleum, one of our partners in the Tui oilfields. Over five days we acquired a 15% stake in PPP.

The Tui fields continue to perform well. NZOG's Tui revenue for the six months to 31 December was NZ$103.2 million. Another 2.4 million barrels of oil were produced in the quarter. After 500 days of continuous production, a planned one week maintenance shutdown was successfully undertaken in December. Tui remains on track to produce 9 million barrels in the year to the end of June 2009 and the joint venture is close to finalising arrangements for a drilling campaign in the Tui permit in 2009.

David Salisbury CEO
20 January 2009



Kupe Production Station and Mount Taranaki

The Umuroa

Pipe Rack at Kupe Production Station

Tui Area Oil Fields

(PMP 38158, NZOG INTEREST 12.5%)

Total Tui production for the three month period was 2.4 million barrels (mmbbls) at an average rate of over 26,000 barrels of oil a day. The daily average was affected by a planned one week shutdown in December for maintenance, inspection and software and equipment upgrades.

As expected, the field production rate is gradually reducing, but all four wells continue to produce strongly. The amount of water being produced is trending slightly below the revised reservoir simulation model.

The Tui partners have agreed to defer a proposed additional development well in favour of further exploration. Given the continued performance of the field, the Operator (AWE) has advised that the proven and probable (2P) reserve estimate should remain at 50.1 million barrels, without the extra well.

On 8 January 2009, Tui's total production since start up on 30 July 2007 reached 20 mmbbls - NZOG's share 2.5 mmbbls.

Kupe Field

(PML 38146, NZOG INTEREST 15%)

Overall, the Kupe Project is now over 90% complete. At the onshore Production Station near Hawera, generally good spring weather assisted progress in such activities as erecting piping, steel structures, the installation of spools, and electrical cabling.

At the Omata Tank Farm near New Plymouth the erection of the two condensate storage tanks commenced in December.

As the construction phase moves towards its completion in the first half of 2009, attention is also turning to the transition from a development project to an operating oil and gas field, and the various processes and agreements that need to be in place.

In November, NZOG entered into an agreement for Vector to purchase NZOG's share of the LPG that will be produced from the Kupe field. Vector has agreed to take NZOG's LPG entitlement of approximately 15,000 tonnes per annum for an initial term of 10 years. This term can be extended for up to another 5 years. The LPG will be retailed through Vector's subsidiary On Gas.

The successful applicants for the 2008 Kupe Community Grants were announced in mid-December. 21 South Taranaki community organisations received grants totalling $50,000.

Pike River Coal Limited

(NZOG INTEREST 30%)

Pike River is now an operating coal mine. The breakthrough to coal was achieved on 17 October 2008. However, tunnelling delays mean that PRC now expects to undershoot its production target of 200,000 tonnes by 30 June 2009, by about 20%. PRC still expects to then build to annual production of one million tonnes per annum. PRC is also testing the Paparoa seam which lies 200m below the Brunner seam, to establish whether it can be commercially extracted. This could add up to eight million tonnes of premium coking coal to the mine's reserves.

Further details of the status of the Pike coal mine can be obtained at www.pike.co.nz

Financial Update

NZOG's operating revenue for the December quarter was NZ$30.9m. A total of NZ$19.7m was invested in capital projects, mostly the ongoing Kupe development project. In December NZ$30.7m was used to acquire shares in Pan Pacific Petroleum.

At 31 December 2008, NZOG's total cash on hand was NZ$211.9m, with just over two thirds of these funds held in US denomination accounts with New Zealand domiciled banks. NZOG repaid its Kupe debt facility in mid-October and currently has no debt.

More financial information is contained in the December 2008 Quarterly Cash Flow Report, which has been released to the NZX and ASX.

Exploration

PERMIT APPLICATIONS

NZOG has made an application for acreage that lies to the south and west of the Kupe Permit. NZOG was the only applicant. A decision from Crown Minerals on granting NZOG the permit is pending. If granted the acreage, as expected, NZOG intends to conduct a seismic survey over several promising leads.

NZOG and the Tui joint venture parties have made an application for acreage that lies to the south of PEP38483. A decision from Crown Minerals is pending.

PEP38259 (BARQUE)
(NZOG INTEREST 40%)

This permit lies in the offshore Canterbury Basin and contains the Barque prospect. NZOG's technical team has independently assessed Barque as having potential for P50 (best estimate) recoverable resources of 600 billion cubic feet (BCF) of dry sales gas and 58 million barrels (mmbbls) of light oil/condensate. However, a lot of work remains to be done to assess the prospect, beginning with a seismic survey in early 2009. A decision whether or not to drill an exploration well is due by August 2010.

PML38146 (KUPE)
(NZOG INTEREST 15%)

The Operator is progressing detailed studies to determine whether it may be possible to develop the three discovered accumulations – Kupe South 4, Kupe South 5 and Momoho 1 – along with potential accumulations nearby. The outcome of this work is expected in the next few months.

PMP38158 (TUI)
(NZOG INTEREST 12.5%)

Confirmation of a 2009 drilling campaign within the Tui permit is expected shortly. There are five potentially attractive prospects near to the three existing producing reservoirs that comprise the Tui area oil fields. In total, these five prospects contain aggregate unrisked prospective resources at a P50 level of over 50 million barrels of oil. (This is adding together the best current estimate of what each of the prospects might contain). No final decision has been made on which of the prospects will be targeted in 2009 and the Tui Operator is in negotiations to obtain a drilling rig.

PEP38483
(NZOG INTEREST 18.9%)

A marine seismic survey was carried out in this permit by the Pacific Titan in November/December 2008. Approximately 1,100 km of 2D seismic was shot. The collected information is currently being processed and interpretation of the data is expected to begin in the second quarter of 2009.

The Pacific Titan Seismic Vessel

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The Cloud with a Silver Lining

The rapid rise and fall of the international oil price, coupled with the global credit crunch, made business decision-making difficult for oil exploration and production companies in 2008. Indeed, some companies with limited cash flows and large funding commitments may not survive 2009.

NZOG is in a strong position to take advantage of investment opportunities. Price expectations are lowering and industry consolidation is starting to happen and is likely to gather pace. It is a time of opportunity to create greater wealth for shareholders and we are looking to use our strong position to secure attractive new ventures. New possibilities are continually being identified. These are thoroughly and systematically assessed, and those which meet our criteria are being actively pursued.

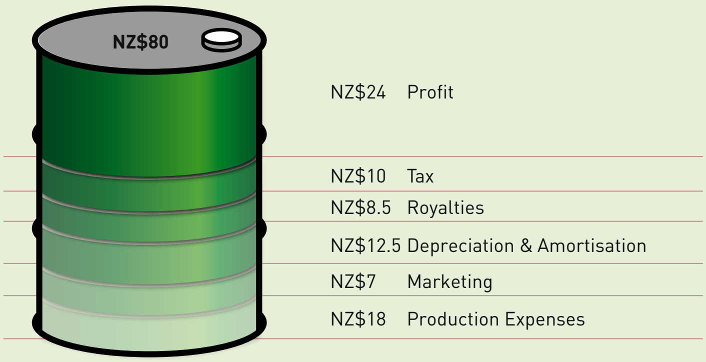
Within our existing portfolio, the Kupe project will begin providing a significant new revenue stream in the second half of 2009. And while our revenue flow from Tui has reduced since the record oil prices of mid-2008, on a daily basis Tui continues to make money for us.

At our AGM in October 2008, we showed an approximate breakdown for a barrel of Tui oil sold for NZ$120, which was roughly the price we were getting at the time. That showed a net profit to NZOG of around NZ$45 a barrel.

Below is a breakdown for a barrel of oil sold for $NZ80, which was roughly the price received in mid-December.

Depreciation, marketing and production costs are reasonably constant, but tax and royalty costs change as the sale price changes. This means that a barrel of Tui oil sold for NZ$80 yields a profit of approximately NZ$24.

A barrel of Tui oil



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For information about your share holding or to change your address, please contact the share registrars as follows:

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What's Coming Up?

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NZOG stock symbols

NZX SHARES – NZO ASX SHARES – NZO