New Zealand Oil & Gas Limited

ACTIVITIES REPORT

FOR THE QUARTER ENDED 30 SEPTEMBER 2008

KEY POINTS

- **Special Dividend of 5c per ordinary share paid on 1 October**
- **NZOG debt-free**
- **Total Tui production for the Quarter 3.15 million barrels**
- **NZOG's share of Tui Revenue for the Quarter NZ$72.3 million**
- **Pike tunnel reaches Brunner coal seam**

DEAR INVESTOR

As the fallout from the US financial crisis reverberates around the world, New Zealand Oil & Gas Ltd finds itself in a position of strength to not only weather the storm, but also to take advantage of some of the opportunities it may toss up.

NZOG is on a very secure financial footing. As part of our ongoing capital management we have repaid in full our Kupe debt but retained the debt facility (NZ$125m) to ensure ready access to funds on attractive terms should we wish to use them. Following this debt repayment we still have substantial cash reserves of around NZ$220m and a good income stream from Tui, with Kupe revenue less than a year away. This combination means we can continue to pursue a prudent growth strategy.

After reporting a net profit for the 2008 Financial Year of NZ$97.2m, the company announced a Special Dividend of 5 cents per ordinary share, which was paid to shareholders on 1 October. This was in addition to the previous 5 cents per ordinary share dividend paid out in April 2008.

The Board has adopted a dividend policy that it will distribute a reasonable proportion of profit by way of an annual dividend. Future dividends are expected to be announced to coincide with release of the annual results.

In the three months to the end of September, the Tui Oilfields performed in line with expectations, producing 3.15 million barrels of oil (mmbbls). NZOG's share was a little over 390,000 barrels.

International oil prices reached $US150 a barrel in July, and then declined sharply. At the same time, the NZ dollar fell against the US dollar, lessening some of the impact on revenue reported in NZ dollars. NZOG's total revenue for the quarter from Tui crude was NZ$72.3m.

Overall the Kupe Project is more than 85% complete. While the expected development cost has increased by another 10%, revenue expectations are also substantially higher. Commercial production is now expected to begin in the third quarter of 2009.

The Board and management are continuing to devote a great deal of time and effort to identifying and analysing potential new investments. We are taking a very prudent approach, rigorously screening out less attractive opportunities and targeting only those opportunities that are robust and comfortably within NZOG's financial capacity. We are actively pursuing some attractive opportunities and are hopeful that we can bring some of these to conclusion shortly.

David Salisbury CEO
20 October 2008

Activity Review

Working aboard the Umuroa

Pipe trays will carry 300km of cable
around the Kupe Production Station

NZOG stock symbols

NZX SHARES – NZO   ASX SHARES – NZO

Tui Area Oil Fields
(PMP 38158, NZOG INTEREST 12.5%)

Total Tui production for the three month period was 3.15 mmbbls at an average rate of over 34,000 barrels of oil a day. Extreme weather forced a curtailment of production at the start of July and there was a production slowdown during planned maintenance in mid-September but the field and the facility have continued to perform well.

As expected, there continues to be a gradual increase in the production of associated water and this is now limiting the maximum oil recovery rate to around 32,000 barrels a day. The joint venture is discussing modifications to the production vessel, the Umuroa, which would increase its fluid handling capacity to 180,000 barrels a day. This would allow more oil to be recovered at a faster rate from the current reservoirs and would also provide the flexibility to tie-in any future nearby discoveries.

By the end of September, Tui's total production since start up on 30 July 2007 had reached 17.38 mmbbls. NZOG's share was 2.17 mmbbls. The initial proven and probable (2P) reserves are currently estimated to be 50.1 mmbbls.

Kupe Field
(PML 38146, NZOG INTEREST 15%)

Overall, the Kupe Project is now over 85% complete. With all of the offshore facilities in place, attention is focussed onshore. Construction of two large condensate storage tanks on land recently acquired at the Omata Tank Farm near New Plymouth has commenced. The tanks will have a combined capacity of 30,000 cubic metres and will be connected by pipeline to existing export facilities at Port Taranaki.

At the Kupe Production Station near Hawera the new electricity substation has been commissioned and the gas sales pipeline installed. Other major items that have been completed include the slug catcher (water/gas separator), all eight pipe modules and all the LPG bullets.

Work is continuing on erection of structural steel, piping and electrical and instrumentation installation. However, overall progress has been hampered by the unusually harsh winter weather. There have also been some slippages in equipment delivery and quality issues with some of the received goods. As a result, the Operator has recently advised that the target date for first commercial gas sales has moved back slightly into the third quarter 2009.

In a community initiative, the joint venture has leased a farm it owns next to the Production Station to the Taranaki Rugby Union, to be used in a unique venture to raise funds for grassroots rugby via the newly formed Taranaki Community Rugby Trust.

Pike River Coal Limited
(NZOG INTEREST 30%)

During the quarter the focus at the Pike River Coal mine site was on the final tunnel section through to the Brunner coal seam. The milestone of "first coal" was achieved on 17 October.

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

Exploration

PERMIT PML38146 (KUPE)
(NZOG INTEREST 15%)

Following July's decision to plug and abandon the Momoho exploration well, the Operator is to undertake further studies to determine whether it may be possible to contemplate a development combining the three discovered accumulations – Kupe South 4, Kupe South 5 and Momoho 1 – along with potential accumulations nearby. The outcome of this work is not expected until some time next year.

PERMIT PMP38158 (TUI)
(NZOG INTEREST 12.5%)

Evaluation of near-field exploration opportunities is ongoing. The joint venture is actively considering a significant four well drilling campaign. It has pre-invested in some long lead items and is looking to secure a drilling rig, while continuing to refine evaluations ahead of any final drilling commitments.

PERMIT PEP38499
(NZOG INTEREST 12.5%)

The permit partners have agreed to relinquish this permit. PEP38499 was acquired by the Tui partners in mid 2007. It lies immediately to the south of the Tui fields and was therefore worth investigating closely. A marine seismic survey shot last year has been processed and evaluated. The results from the latest seismic interpretation and related mapping substantially downgraded the potential leads. The partners consider that there are no drillable targets and the permit will be handed back to the Crown.

PERMIT PEP38483
(NZOG INTEREST 18.9%)

Work on this permit continues to focus on remodeling and reviewing a number of prospects and leads with a view to proving these up to drillable prospects.

Financial Update

NZOG's operating revenue from Tui for the quarter was NZ$72.3m. A total of NZ$28.9m was invested in capital projects, mostly the ongoing Kupe development project.

At 30 September 2008, NZOG's total cash on hand was NZ$286.4m, with a portion of these funds held in US denominated accounts. Total debt was NZ$66.8m. On 1 October 2008, NZ$19.8m was distributed to shareholders in dividend payments and in mid-October the total debt was repaid.

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

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The International Oil Price Rollercoaster

2008 has seen an unprecedented degree of volatility in international oil prices. On several occasions prices have moved by more than US$10 a barrel in a single day, both up and down.

The main benchmark crudes broke the US$100 a barrel barrier for the first time in January and then kept climbing, touching on US$150 a barrel in mid-July. Prices then started retreating and at the end of September were back around the US$100 mark, and have fallen further since then as global recession fears increase.

Despite all this movement, it is important to recognise that oil prices are still at historically high levels. When the Tui project was sanctioned in 2006, oil prices were around US$50 a barrel. At that pricing level, Tui was a profitable investment. By the time Tui began production in July 2007, prices had moved up to US$75 a barrel. And in the September 2008 quarter, NZOG's average sales price for Tui oil was approximately $US120 a barrel.

Tui has now produced around 18 million barrels of oil, from recoverable reserves which are currently estimated to be around 50 million barrels. NZOG has been able to sell its share at prices far higher than pre-production estimates.

So what returns can be expected for the estimated 32 million barrels remaining to be recovered from Tui and the oil and LPG expected to be recovered from the Kupe project? (The Kupe gas has been sold on a long term contract to Genesis). Only one thing is for certain – it is extremely difficult to predict the future! Production will take place over a long period – we expect Tui to still be producing in 2020 and Kupe until at least 2025. So we need to look beyond the short-term influences that have been in play in recent months.

It is generally agreed that demand for oil will increase, driven by growth in developing countries like China, India and Brazil. Energy is essential to the economic activity that sustains and improves the quality of life and many developing countries are at the point where individual wealth and consumption is accelerating. As a result global oil demand is predicted by international agencies to increase by between 40% and 70% by 2030.

At the same time, on the supply side of the equation, there are a growing number of uncertainties. There is an increasing concentration of existing reserves in a few hands and nationalism or protectionism could remove resources from the market. New oil & gas sources are more difficult to access; the technology requirements are increasingly complex; industry costs have risen dramatically; massive investment is needed; human resources are stretched; and environmental constraints are still evolving.

It's a complex picture but it is generally agreed that the world is moving from a demand-driven to a supply-constrained system. This means that whatever happens with the world economy in the short-term, in the medium to long term there will be strong upward pressures on oil prices.

Oil Price Graph

NZOG's Tui oil is sold against the regional Tapis Benchmark Crude. This graph shows the Tapis price in US dollars for 2008, along with an approximate value when converted into NZ dollars. It shows how the recent fall in the NZ dollar has compensated for some of the falling international oil price.