



**Annual Information Form**

For the year ended December 31, 2012  
Dated as of June 14, 2013

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## TABLE OF CONTENTS

<b>GLOSSARY</b> .....	<b>1</b>
<b>PRELIMINARY NOTES</b> .....	<b>4</b>
Date of Information.....	4
Forward-looking Information.....	4
IFRS and Non-IFRS Measures.....	6
Documents Incorporated By Reference .....	6
Currency.....	7
<b>CORPORATE STRUCTURE</b> .....	<b>7</b>
Name, Address and Incorporation.....	7
Intercorporate Relationships and Ownership of the Company’s Properties.....	7
<b>GENERAL DEVELOPMENT OF THE BUSINESS</b> .....	<b>8</b>
<b>DESCRIPTION OF BUSINESS</b> .....	<b>17</b>
Statement of Reserves Data and Other Oil and Gas Information.....	17
Additional Information Regarding the Company’s Oil and Gas Assets.....	21
Employees .....	25
Competitive Conditions .....	25
Economic Dependence.....	26
Environmental Protection.....	26
Foreign Operations.....	26
Regulatory Regime .....	26
<b>DIVIDENDS</b> .....	<b>30</b>
<b>CAPITAL STRUCTURE</b> .....	<b>30</b>
<b>MARKET FOR SECURITIES</b> .....	<b>31</b>
Trading Price and Volume .....	31
Prior Sales .....	32
<b>ESCROWED SECURITIES AND SECURITIES SUBJECT TO RESTRICTIONS</b> .....	<b>32</b>
<b>DIRECTORS AND OFFICERS</b> .....	<b>33</b>
Name, Occupation and Security Holding.....	33
Cease Trade Orders, Bankruptcies, Penalties or Sanctions .....	37
Conflicts of Interest.....	38
<b>AUDIT COMMITTEE</b> .....	<b>39</b>
<b>PROMOTERS</b> .....	<b>40</b>
<b>LEGAL PROCEEDINGS AND REGULATORY ACTIONS</b> .....	<b>40</b>
<b>INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS</b> .....	<b>41</b>
<b>AUDITORS</b> .....	<b>41</b>
<b>TRANSFER AGENT AND REGISTRAR</b> .....	<b>41</b>
<b>MATERIAL CONTRACTS</b> .....	<b>41</b>
<b>EXPERTS</b> .....	<b>42</b>
<b>OTHER MATERIAL FACTS</b> .....	<b>42</b>
<b>RISK FACTORS</b> .....	<b>43</b>
<b>ADDITIONAL INFORMATION</b> .....	<b>53</b>

## GLOSSARY

- “**Ahuroa Licence**” means PML 38139, covering 3,857 acres (15.6 km<sup>2</sup>) in the Taranaki Basin;
- “**Alton Permit**” means PEP 51151, covering 119,204 acres in the Taranaki Basin (net 77,482 acres, 313.6 km<sup>2</sup>);
- “**API**” means American Petroleum Institute;
- “**Brent pricing**” means the reference against which two thirds of the world’s internationally traded crude oil supplies are priced;
- “**Castlepoint Permit**” means PEP 52694, covering 551,045 acres (2,230.0 km<sup>2</sup>) in the East Coast Basin;
- “**COGE Handbook**” means the Canadian Oil and Gas Evaluation Handbook;
- “**conventional reservoir**” means a reservoir in which buoyant forces keep hydrocarbons in place below a sealing caprock. Reservoir and fluid characteristics of conventional reservoirs typically permit oil or natural gas to flow readily into wellbores;
- “**Crown**” means the Government of New Zealand;
- “**CSA 51-324**” means Staff Notice 51-324 – Glossary to NI 51-101 *Standards of Disclosure for Oil and Gas Activities of the Canadian Securities Administrators*;
- “**degree API**” means a standard for measuring the specific gravity of a liquid hydrocarbon;
- “**Deloitte**” means Deloitte LLP (formerly AJM Petroleum Consultants and AJM Deloitte), independent petroleum engineers based in Calgary, Alberta;
- “**East Cape Permit**” means PEP 52976, covering 1,067,495 acres (4,320.0 km<sup>2</sup>) in the East Coast Basin;
- “**Eltham Permit**” means PEP 51150, covering 93,166 acres (377.0 km<sup>2</sup>) in the Taranaki Basin;
- “**geochemical**” means the field of geochemistry involving study of the chemical composition of the Earth and other planets, chemical processes and reactions that govern the composition of rocks, water, and soils;
- “**hydrocarbon**” means a molecule comprised solely of carbon and hydrogen. The simplest example is methane;
- “**Kapuni Formation**” means the Paleocene to Eocene age sedimentary rocks that form highly productive reservoirs in the Maui and Kapuni fields, in the Taranaki Basin, New Zealand;
- “**Kapuni Group**” means the Paleocene to Eocene age sedimentary rocks that include the highly productive source and reservoir units of the Farewell, Kaimiro, Mangahewa and McKee formations;
- “**Kapuni gas field**” means the Kapuni gas-condensate field discovered in 1959 onshore in the Taranaki Basin. Production is largely from the Mangahewa formation;
- “**Manaia Permit**” means PEP 54867, covering 27,426 acres in the Taranaki Basin (net 16,456 acres, 66.6 km<sup>2</sup>);
- “**Minister of Energy**” means the New Zealand Minister of Energy;

“**Moki Formation**” means the Mid Miocene sand-rich turbidite complex in the Taranaki Basin, New Zealand. The Moki Formation is a proven hydrocarbon reservoir with its stacked, thick, tabular sandstone packages totalling more than 300 metres in places;

“**Mt. Messenger Formation**” means the well-developed, deep-water sandstone successions of Late Miocene age in the Taranaki Basin, New Zealand. The Mt. Messenger Formation is best developed in the northeastern part of onshore Taranaki, occurring as thick accumulations of submarine fan deposits and overlying base-of-slope fan deposits. The Mt. Messenger reservoir sandstones have been intersected in numerous onshore and offshore Taranaki wells;

“**Ngaere Licence**” means PML 38141, covering 14,001 acres (56.7 km<sup>2</sup>) in the Taranaki Basin;

“**NI 51-101**” means National Instrument 51-101 – *Standards of Disclosure for Oil and Gas Activities* of the Canadian Securities Administrators;

“**NI 52-110**” means National Instrument 52-110 – *Audit Committees* of the Canadian Securities Administrators;

“**NZOG**” means New Zealand Oil and Gas Limited;

“**NZPAM**” means New Zealand Petroleum & Minerals, the group within the Ministry of Economic Development that manages the Crown’s oil, gas, mineral and coal resources, known as the Crown Mineral Estate.

“**Origin Royalty**” means a 9% royalty that will be payable to Origin if the Acquisition of assets closes. The royalty is payable on net revenue (hydrocarbon sales less operating expenses incurred between the point of valuation defined by NZPAM and the point of sale) from all future petroleum production from the TWN Licences. The Company retains the right to reduce the royalty from time to time at any time by up to 4% by paying Origin \$4.25 million per percentage point reduction;

“**PEP**” means a petroleum exploration permit granted by the Crown;

“**PML**” means a petroleum mining licence granted by the Crown under the Petroleum Act 1937 to enable the development of a petroleum field with the purpose of extracting and producing petroleum;

“**PMP**” means a petroleum mining permit granted by the Crown under the Crown Minerals Act 1991 to enable the development of a petroleum field with the purpose of extracting and producing petroleum;

“**Ranui Permit**” means PEP 38342, covering 223,087 acres (902.8 km<sup>2</sup>) in the East Coast Basin;

“**Reserves Report**” means a report prepared by Deloitte which evaluates the Company’s reserves with an effective date of December 31, 2012;

“**stock tank barrel**” or “**stb**” means one barrel of stabilized or dead oil at the surface of the Earth after the gas has escaped;

“**Swift Royalty**” means a 10% royalty (with the ability to deduct a value equal to 10% of all taxes and assessments imposed by the government) payable in favour of Swift Energy New Zealand Limited and Swift Energy New Zealand Holdings Limited on oil production from the Tikorangi Formation on the Waihapa and Tariki PMLs that exceeds 1,736,999 bbl;

“**Tariki Licence**” means PML 38138, covering 3,566 acres (14.4 km<sup>2</sup>) in the Taranaki Basin;

“**Tikorangi Formation**” means the Oligocene to earliest Miocene marls and limestones with highly variable permeabilities, and is the only carbonate and fracture-producing reservoir in the Taranaki Basin;

“**TJ**” means a Terajoule, a measure of energy and is equivalent to approximately 1 MMcf of natural gas;

“**TWN Licences**” means collectively the Tariki, Waihapa and Ngaere petroleum mining licences in the Taranaki Basin;

“**Urenui Formation**” means a sand-rich turbidite complex of Miocene-Pliocene age located in the Taranaki Basin, New Zealand. The Urenui Formation stratigraphically overlies the Mt. Messenger Formation and has been intersected by numerous onshore Taranaki wells;

“**Waihapa Licence**” means PML 38140, covering 5,483 acres (22.2 km<sup>2</sup>) in the Taranaki Basin;

“**Waipawa Formation**” means a fractured, poorly bedded, organic-rich siltstone of Paleocene age, deposited in an anoxic, limited circulation, marine environment. Sampling indicates average total organic carbon (TOC) values of 5% of 12%. Thicknesses can be up to 70 metres. The Waipawa Formation has been geochemically linked to many onshore oil and natural gas seeps;

“**Waihapa Production Station**” means a full-cycle open-access production facility and associated gathering and sales infrastructure located in the Taranaki Basin with capacity to process 45 MMcf/d of natural gas, process 70 tonne/d of LPG, handle 25,000 bbl/d of oil and dispose of 18,000 bbl/d of water. The facility is one of the assets that the Company proposes to acquire from Origin;

“**Wairoa Permit**” means PEP 38346, covering 267,862 acres in the East Coast Basin (net 214,290 acres, 867.2 km<sup>2</sup>);

“**Whangai Formation**” means a poorly bedded, organic rich siliceous or slightly calcareous mudstone of Late Cretaceous age located in the East Coast Basin, New Zealand. The Whangai Formation can be up to 600 metres thick. Total organic carbon ranges from 0.8 to 1.7%. The Whangai Formation has been geochemically linked to many onshore oil and natural gas seeps; and

“**WPSL**” means Waihapa Production Services Limited, a wholly-owned subsidiary of the Company.

## Abbreviations

In this AIF, the abbreviations set forth below have the following meanings:

gravity	Scale used to express specific gravity of oils	MBOE/d	Thousand barrels of oil equivalent per day
bbl	Barrel or barrels	MMBTU	Million of British thermal units
bbl/d	Barrel or barrels per day	Mcf	Thousands of cubic feet
BOE	Barrel or barrels of oil equivalent	Mcf/d	Thousands of cubic feet per day
BOE/d	Barrels of oil equivalent per day	mD	milliDarcy (one 1/1000th of a Darcy), a measurement of permeability
Bcf	Billion cubic feet	MMbbl	Million barrels
ft	Feet	MMBOE	Million barrels of oil equivalent
Gj	Gigajoule	MMcf	Million cubic feet
km	Kilometres	MMcf/d	Million cubic feet per day
km <sup>2</sup>	Square kilometers	MMstb	Million stock tank barrels
m	Metres	PJ	Petajoule
m <sup>3</sup>	Cubic metres	Tcf	Trillion cubic feet
MMa	Million years ago	TJ	Terajoule
Mbbl	Thousand barrels	US\$/bbl	U.S. Dollars per barrel
Mbbl/d	Thousand barrels per day	2D	Two dimensional
MBOE	Thousand barrels of oil equivalent	3D	Three dimensional

**Note:** The term BOE may be misleading, particularly if used in isolation. The Company uses a standard BOE conversion ratio of 6 Mcf: 1 bbl, based on an energy equivalency method primarily applicable at the burner tip, which does not represent a value equivalency at the wellhead.

## Conversions

The following table sets forth certain standard conversions from Standard Imperial units to the International System of Units (or metric units):

To Convert From	To	Multiply By
Mcf	Thousand cubic metres of gas	0.0282
Thousand cubic metres of gas	Mcf	35.494
bbl	Cubic metres of oil	0.1589
Cubic metres of oil	bbl	6.290
Litre	bbl	0.0063
PJ	Bcf	0.929
Bcf	PJ	1.076
GJ	Mcf	0.929
Mcf	GJ	1.076
Miles	Kilometres	1.609
Kilometres	Miles	0.621
Feet	Metres	0.305
Metres	Feet	3.281
Acres	Hectares	0.405
Hectares	Acres	2.471
Acres	km <sup>2</sup>	0.004047
km <sup>2</sup>	Acres	247.105381

## PRELIMINARY NOTES

### Date of Information

Unless otherwise indicated, all information contained in this Annual Information Form (“AIF”) of New Zealand Energy Corp. (the “Company” or “NZEC”) is accurate as of June 14, 2013.

### Forward-looking Information

Certain statements contained in this AIF and the documents incorporated by reference herein constitute forward-looking information and forward-looking statements within the meaning of applicable securities legislation (collectively “forward-looking statements”). The use of any of the words “being”, “will”, “until”, “estimate”, “will be”, “is considering”, “will proceed”, “plans”, “reactivate”, “would be”, “could be”, “would bring”, “could bring”, “expected”, “anticipate”, “continue”, “expect”, “may”, “propose”, “should”, “believe”, “intends”, “contingent”, “subject to” and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. Such forward-looking statements included in this AIF and the documents incorporated by reference herein should not be unduly relied upon. This forward-looking information is made as of the date of this AIF, or in the case of documents incorporated by reference herein, as of the dates of such documents.

In particular, this AIF contains forward-looking statements pertaining to the following:

- the timing for receipt of regulatory approvals;

- timing for completion and commissioning of Contact's 18" pipeline;
- the resource potential of the Company's oil and gas properties;
- the estimated quantity and quality of the Company's oil and natural gas resources;
- projections of market prices and costs and the related sensitivity of distributions;
- supply and demand for oil and natural gas;
- expectations regarding the ability to raise capital and to continually add to resources through acquisitions and development;
- the source of funding for the Company's activities;
- completion of the acquisition of assets from Origin Energy Limited;
- approval of the Company's application for the East Cape Permit;
- completion of the joint operating agreement and receipt of regulatory approval for the transfer of an interest in the Wairoa Permit to the Company;
- treatment under governmental regulatory regimes and tax laws, and capital expenditure programs;
- expectations with respect to the Company's future working capital position; and
- capital expenditure programs.

Statements relating to "resources" and "reserves" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions, that the resources described can be profitably produced in the future.

With respect to forward-looking statements contained in this AIF, assumptions have been made regarding, among other things:

- future commodity prices;
- the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner;
- the impact of increasing competition on the Company;
- the impact of any changes in New Zealand law;
- the ability of the Company to satisfy the minimum requirements to maintain its existing and future mining permits in good standing;
- the regulatory framework governing royalties, taxes and environmental matters in New Zealand and any other jurisdictions in which the Company may conduct its business in the future;
- the ability of the Company's subsidiaries to obtain petroleum exploration permits, access rights in respect of land and resource, and environmental consents;
- the geography of the areas in which the Company is exploring;
- the recoverability of the Company's crude oil, natural gas and natural gas liquids resources;
- geological and engineering estimates in respect of the Company's resources;
- the applicability of technologies for recovery and production of the Company's oil, natural gas and natural gas liquids resources;
- the Company's future production levels;
- the Company's ability to market crude oil, natural gas and natural gas liquids production;
- future cash flows from production meeting the expectations stated herein;
- future development plans for the Company's assets unfolding as currently envisioned;
- future capital expenditures to be made by the Company;
- future sources of funding for the Company's capital program;
- the Company's future debt levels; and
- the Company's ability to obtain financing in the future on acceptable terms, or at all.

Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this AIF:

- the speculative nature of exploration, appraisal and development of oil and natural gas properties;
- uncertainties associated with estimating oil and natural gas resources;
- changes in the cost of operations, including costs of extracting and delivering oil and natural gas to market, which affect potential profitability of oil and natural gas exploration;
- operating hazards and risks inherent in oil and natural gas operations;
- volatility in market prices for oil and natural gas;
- market conditions that prevent the Company from raising the funds necessary for exploration and development on acceptable terms, or at all;
- completion of the study preceding the gas looping trial with Contact and successful completion of that trial;
- completion and commissioning of Contact's 18" pipeline;
- global financial market events that cause significant volatility in commodity prices;
- unexpected costs or liabilities for environmental matters;
- competition for, among other things, capital, acquisition of properties, skilled personnel, and access to equipment and services required for exploration, development and production;
- changes in exchange rates, laws of New Zealand or laws of Canada affecting foreign trade, taxation and investment;
- failure of the Company to complete the acquisition of assets from Origin Energy Limited, to obtain and maintain an interest in the Wairoa Permit, or to realize the anticipated benefits of such acquisitions; and
- other factors discussed under "Risk Factors".

Readers are cautioned that the foregoing lists of factors are not exhaustive. **The forward-looking statements contained in this AIF and documents incorporated by reference herein are expressly qualified by this cautionary statement. Except as required under applicable securities laws, the Company does not undertake or assume any obligation to publicly update or revise any forward-looking statements.**

### **IFRS and Non-IFRS Measures**

Within this AIF and the documents incorporated by reference herein, references are made to terms commonly used in the oil and natural gas industry such as "working capital" and "field netback", which are terms not recognized under International Financial Reporting Standards ("IFRS"). The Company uses these measures to help evaluate its performance, leverage and liquidity. Working capital represents current assets less current liabilities. There is no IFRS measure that is reasonably comparable to working capital. Field netback is defined as revenue (being oil sales less royalties) less production costs. Management considers field netback as important as it helps evaluate performance of the Company's producing wells and demonstrate the Company's ability to generate funds to cover overheads and be applied for future growth opportunities. Working capital and field netback may not be comparable to those reported by other companies, nor should they be viewed as an alternative to cash flow from operations, net income or other measures of financial performance calculated in accordance with IFRS.

### **Documents Incorporated By Reference**

**Information has been incorporated by reference in this AIF from documents filed with securities commissions or similar authorities in Canada.** Copies of the documents incorporated herein by reference may be obtained on request without charge from the Company's head office at Suite 1680 - 200 Burrard Street, Vancouver, British Columbia, V6C 3L6 (telephone: 604-630-8997) or by accessing the disclosure documents available through the internet on the System for Electronic Document Analysis and Retrieval ("**SEDAR**") which can be accessed at [www.sedar.com](http://www.sedar.com). The following documents are specifically incorporated by reference in this AIF:



1. Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information dated April 22, 2013, with the effective date of the data as at December 31, 2012.
2. Form 51-101F2 – Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor dated March 21, 2013.
3. Form 51-101F3 – Report of Management and Directors on Reserves Data and Other Information.

### **Currency**

Unless otherwise indicated, all currency amounts herein are stated in Canadian Dollars.

## **CORPORATE STRUCTURE**

### **Name, Address and Incorporation**

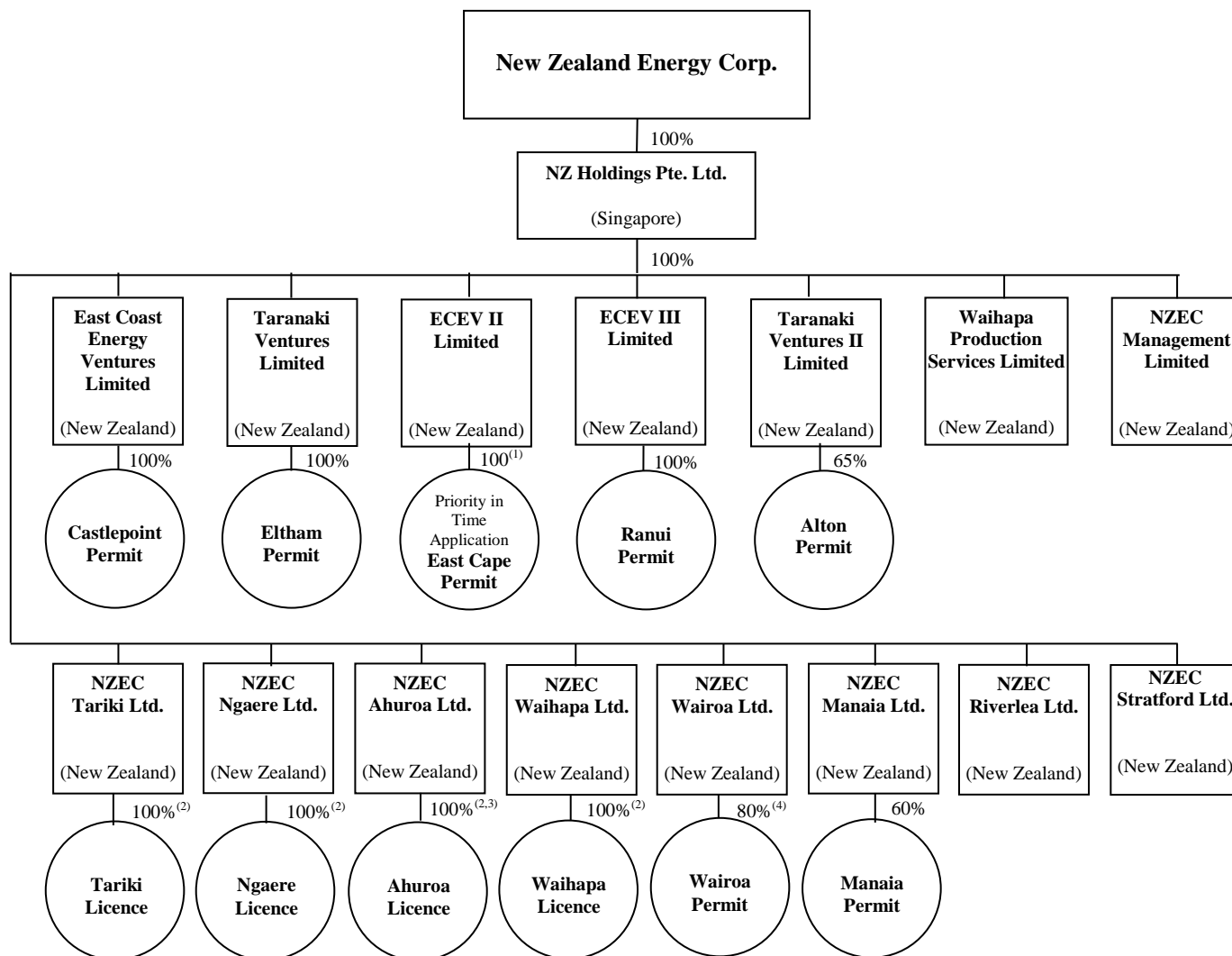
The Company is an oil and natural gas company engaged in the production, exploration and development of petroleum and natural gas assets in New Zealand. The Company commenced operations on April 19, 2010 through its now wholly-owned subsidiary East Coast Energy Ventures Limited. The Company was subsequently incorporated under the name “0894134 B.C. Ltd.” pursuant to the *Business Corporations Act* (British Columbia) on October 29, 2010. On November 10, 2010, the Company changed its name to “New Zealand Energy Corp.”.

The Company’s head office is located at Suite 1680 - 200 Burrard Street, Vancouver, British Columbia, Canada V6C 3L6. The Company also has two operational offices located in New Zealand at L2, 86-96 Victoria Street, Wellington, New Zealand and 5 Devon Street East, New Plymouth, New Zealand. The Company’s registered and records office is located at Suite 1200 - 750 West Pender Street, Vancouver, British Columbia, Canada V6C 2T8.

In August 2011, the Company completed an initial public offering (“**IPO**”) by way of a prospectus dated July 19, 2011 and became a reporting issuer in each of the provinces of Canada, other than Québec. On August 4, 2011, the Company’s common shares were listed for trading on the TSX Venture Exchange (“**TSX-V**”) under the symbol “NZ”. The Company’s common shares are also quoted on the OTCQX International Exchange under the symbol “NZERF”.

### **Intercorporate Relationships and Ownership of the Company’s Properties**

The relationships between the Company, its subsidiaries and the Company’s interest in its oil and gas properties is described below:



**Notes:**

- (1) The Company has applied for, but not yet received, this permit.
- (2) The Company is in the process of acquiring these licences from Origin Energy Resources (TAWN) Limited.
- (3) The Company intends to transfer the licence to Contact Energy upon closing of the acquisition of assets from Origin Energy Resources (TAWN) Limited.
- (4) The Company has a right to earn an 80% interest in this permit pursuant to an agreement with Westech Energy New Zealand. The acquisition is subject to completion of a joint operating agreement and final approval of New Zealand Petroleum & Minerals ("NZPAM").

**GENERAL DEVELOPMENT OF THE BUSINESS**

The following describes the development of the Company's business since commencing operations on April 19, 2010.

***Acquisition of Property Portfolio***

*East Cape Permit*

On September 3, 2010, East Coast Energy Ventures Limited applied to the Minister of Energy for the East Cape Permit and subsequently transferred that application to ECEV II Limited, a wholly-owned subsidiary of the

Company. The application was uncontested and the Company anticipates that the East Cape Permit will be granted to ECEV II Limited upon completion of NZPAM's review of the application.

#### *Castlepoint Permit*

On November 24, 2010, East Coast Energy Ventures Limited was granted the Castlepoint Permit by the Minister of Energy.

#### *Eltham Permit*

On December 14, 2010, the Company and Taranaki Ventures Limited, a wholly-owned subsidiary of the Company, entered into a deed of assignment (the "**Eltham Assignment Agreement**") with Green Gate Limited to acquire the Eltham Permit. As consideration for the assignment of the Eltham Permit, Taranaki Ventures Limited paid NZ\$10 to Green Gate Limited and entered into a drilling contract with NRG Drilling Limited. Green Gate Limited and NRG Drilling Limited are related entities. Pursuant to the drilling contract, Taranaki Ventures Limited paid a total of \$1,920,000 to NRG Drilling Limited to drill and case the Copper Moki-1 Well. On March 3, 2011, the Minister of Energy granted consent to the assignment of the Eltham Permit and the Eltham Permit was transferred to Taranaki Ventures Limited.

On May 3, 2012, NZPAM granted a 700 acre extension of land to the northwest corner of the Eltham Permit, increasing the total permit area to 93,166 acres (377.0 km<sup>2</sup>) and giving the Company control over two prospects that crossed the boundary of the Eltham Permit.

#### *Ranui Permit*

The Company and ECEV III Limited, a wholly-owned subsidiary of the Company, entered into a deed of assignment on February 22, 2011, as amended March 15, 2011 (the "**Ranui Assignment Agreement**"), with Discovery Geo Company, pursuant to which ECEV III Limited acquired a 100% interest in the Ranui Permit. In consideration for the assignment under the Ranui Assignment Agreement, ECEV III Limited paid US\$1,000,000 to Discovery Geo Company and the Company issued 1,000,000 common shares to Discovery Geo Company at a deemed price of \$0.75 per common share. Pursuant to the Ranui Assignment Agreement, payment of the funds and issuance of the common shares was subject to Discovery Geo Company negotiating the reduction of gross overriding royalties granted over the Ranui Permit so they do not exceed 3%, exclusive of the 5% royalty payable to the Government of New Zealand. Discovery Geo Company advised they negotiated the reduction, and in support of this, entered into an indemnity agreement dated July 7, 2011. Pursuant to the indemnity agreement, Discovery Geo Company has agreed to indemnify the Company and ECEV III Limited against any and all claims for existing royalties or the right to receive future royalties in excess of the 3%. The Company and ECEV III Limited are currently negotiating a royalty agreement with one remaining third-party royalty holder.

Amendments to the work program, which extended the dates for completing certain activities required under the Ranui Permit, were approved by NZPAM on June 17, 2011 and March 12, 2012. NZPAM consented to the assignment of the Ranui Permit to ECEV III Limited on June 27, 2011.

Under the Ranui Assignment Agreement, if ECEV III Limited does not re-enter the Ranui-1 Well, ECEV III Limited will be required to remediate the Ranui-1 Well site, and will be liable for all costs associated with that remediation. The Ranui-1 Well is currently suspended, and no remediation will be done unless and until the Company decides to abandon the well.

#### *Alton Permit*

On June 24, 2011, the Company and Taranaki Ventures II Limited, a wholly-owned subsidiary of the Company, entered into an asset purchase agreement (the "**Alton Agreement**") with AGL Upstream Gas (MOS) Pty Limited

(“**AGL**”) (a subsidiary of AGL Energy Limited, which is listed on the Australian Securities Exchange), pursuant to which Taranaki Ventures II Limited purchased AGL’s 50% interest in the Alton Permit and associated joint venture with L&M Energy Limited (“**L&M Energy**”) for AU\$2,000,000. The Company guaranteed the obligations of Taranaki Ventures II Limited under the Alton Agreement. NZPAM consented to the transfer of AGL’s 50% interest in the Alton Permit to Taranaki Ventures II Limited on October 4, 2011.

In connection with the Alton Agreement, the Company entered into an agreement dated May 13, 2011, as amended May 30, 2011 (the “**L&M Energy Agreement**”), with L&M Energy, the holder of the remaining 50% interest in the Alton Permit. Pursuant to the L&M Energy Agreement, L&M Energy waived its pre-emptive right to acquire the 50% interest in the Alton Permit from AGL and agreed that the Company (through Taranaki Ventures II Limited) would be the operator of the Alton Permit on completion of the transfer of AGL’s interest. In consideration, the Company funded 100% of L&M Energy’s costs to drill a well (the Talon-1 Well) on the Alton Permit, and the first NZ\$500,000 of completion costs.

On February 21, 2012, Taranaki Ventures II Limited entered into a farm-in agreement with L&M Energy, pursuant to which Taranaki Ventures II Limited earned an additional 15% interest in the Alton Permit, increasing Taranaki Ventures II Limited’s interest to 65%. Taranaki Ventures II Limited is the operator of the Alton Permit, and earned the additional 15% by funding the collection and processing of 3D seismic data over approximately 50 km<sup>2</sup> across the north end of the permit. The 3D seismic program was completed in the second quarter of 2012 and transfer of the additional 15% interest in the Alton Permit was approved on December 21, 2012.

#### *Wairoa Permit*

On October 5, 2012, NZEC Wairoa Ltd., a wholly-owned subsidiary of the Company, entered into an agreement with Westech Energy New Zealand (“**Westech**”), pursuant to which Westech agreed to transfer an 80% interest in the Wairoa Permit to NZEC Wairoa Ltd. NZEC Wairoa Ltd. and Westech have agreed to form a joint venture in relation to the Wairoa Permit, with NZEC Wairoa Ltd. acting as operator. In consideration for the transfer of the 80% interest, NZEC Wairoa Ltd. has assumed 100% responsibility for the permit and completion of the related work program and paid Westech US\$725,000. The proposed work program requires NZEC Wairoa Ltd. to complete various technical studies, reinterpret existing seismic data, shoot and interpret additional 2D seismic, and drill two exploration wells by March 2016. Upon completion of the related work program, Westech will credit US\$225,000 to NZEC Wairoa Ltd. and all future expenditures for the permit will be funded 80% by NZEC Wairoa Ltd. and 20% by Westech. The Company has agreed to guarantee the obligations of NZEC Wairoa Ltd. under the agreement. NZEC Wairoa Ltd. has the option to withdraw from the joint venture after drilling the first exploration well, in which case it would transfer ownership and operatorship of the permit back to Westech. Transfer of the 80% ownership and operatorship of the permit, and proposed amendments to the work program, are subject to completion of the joint operating agreement and approval by NZPAM.

#### *Manaia Permit*

The Company applied for three new Petroleum Exploration Permits (“**PEPs**”) as part of the 2012 New Zealand block offer. In December 2012, NZEC Manaia Ltd., a wholly-owned subsidiary of the Company, was awarded a 60% interest in the Manaia Permit in a joint arrangement with New Zealand Oil & Gas (“**NZOG**”). The Company is the operator of the Manaia Permit, with NZOG contributing technical expertise and manpower and funding 40% of expenditures. The first priority for the Company and NZOG is to advance the property with continued reprocessing and interpretation of the existing 90 km of 2D seismic data and the acquisition of new 2D and 3D seismic data on the property.

For a description of the block offer process, see “Description of Business – Regulatory Regime – Granting of Petroleum Exploration Permits – Block Offer”.

*Assets from Origin Energy Limited*

On May 30, 2012, the Company and its wholly-owned subsidiary Waihapa Production Services Limited (“WPSL”), entered into an agreement (“**Origin Letter Agreement**”) with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively “**Origin**”), to acquire certain assets. These assets included four Petroleum Mining Licences (“**PMLs**”) (the Tariki Licence, Ahuroa Licence, Waihapa Licence and Ngaere Licence) in the Taranaki Basin, as well as the Waihapa Production Station and associated gathering and sales infrastructure. In consideration for the assets, the Company agreed to pay Origin \$42 million (plus adjustments internally estimated at \$9 million) and grant Origin a 5% royalty on the PMLs. The Company paid a \$5 million deposit to Origin on signing of the Origin Letter Agreement.

On June 14, 2013, the Company, through its wholly-owned subsidiaries WPSL, NZEC Tariki, NZEC Ahuroa, NZEC Waihapa and NZEC Ngaere, entered into definitive agreements with Origin (the “**Origin Agreements**”) regarding the acquisition of assets (the “**Acquisition**”), which replaced the Origin Letter Agreement. Pursuant to the terms of the Origin Agreements, consideration for the acquisition was revised to \$30 million payable to Origin, with a 9% net revenue royalty (“**Origin Royalty**”) on the Tariki Licence, Waihapa Licence and Ngaere Licence. The Company may buy back up to 4% of the Origin Royalty at any time by paying \$4.25 million to Origin for each percentage point reduction. The Waihapa and Ngaere licences are also subject to a royalty (“**Swift Royalty**”) in favour of Swift Energy New Zealand Limited and Swift Energy New Zealand Holdings Limited. The Swift Royalty payment is triggered only when oil production from the Tikorangi Limestone formation in the Waihapa and Ngaere licenses exceeds 1,736,999 bbls. In light of the Deloitte reserve estimates for the Waihapa and Ngaere licences, management considers the effect of the Swift Royalty to be immaterial at this time.

As a condition of the Origin Letter Agreement, the Company and its wholly-owned subsidiaries entered into agreements with Contact Energy Limited (“**Contact**”) dated June 14, 2013 (the “**Contact Agreements**”). Contact, owned 53.1% by Origin, is one of New Zealand’s leading energy generators and retailers, providing electricity, natural gas and LPG to customers across New Zealand. Contact currently has 40 TJ priority rights to gas processing through the Waihapa Production Station. In order to provide unencumbered access for the Company to the Waihapa Production Station, Contact agreed to construct and commission a new 8.5-km 18” pipeline that will permit Contact to inject and extract gas from their Ahuroa Gas Storage facility without encumbering the Waihapa Production Station. In consideration for receiving full access to the Waihapa Production Station, the Company agreed to pay NZ\$4.25 million (C\$3.5 million) toward construction of the new Contact pipeline (included throughout this AIF as part of the \$33.5 million purchase price), transfer the Ahuroa Licence to Contact, and surrender a small portion of the Ngaere Licence to Contact. Contact will relinquish its priority rights upon commissioning of the pipeline, which is expected to be complete in Q3- or Q4-2013. If the pipeline is not commissioned by March 31, 2014 (which date can be extended to December 31, 2014 in certain circumstances), Contact will retain its priority access and return the NZ\$4.25 million to the Company. The Company will receive NZ\$285,000 per month for processing services during any period where Contact retains its 40 TJ rights.

Immediately upon closing of the Acquisition, the Company will assume the role of operator of the Ahuroa Gas Storage facility, services which were previously provided by Origin, for which Contact will pay the Company NZ\$200,000 per month.

To close the Acquisition, the Company needs to secure financing in order to deposit the balance of \$25 million owed to Origin and the NZ\$4.25 million to be contributed to Contact’s pipeline into an escrow account (the “**Finance Condition**”). Closing of the Acquisition is also contingent on receiving certain NZPAM approvals. Under the Origin Agreements, \$2.5 million of the deposit is immediately non-refundable. The remaining \$2.5 million of the deposit will become non-refundable on July 12, 2013 if the Company elects to extend the date for completion of the Finance Condition to August 14, 2013. Should the Company fail to meet the Finance Condition by August 14, 2013, the deal will terminate unless Origin and the Company agree to an extension.

Government approval for the Acquisition must be obtained by September 13, 2013 to allow final closing to occur by September 20, 2013, as contemplated in the Origin Agreements.

On closing of the Acquisition and transfer of the Ahuroa Licence to Contact, the Company will own three PMLs (the Tariki Licence, Waihapa Licence and Ngaere Licence, collectively the “**TWN Licences**”) totaling 23,049 acres (93.3 km<sup>2</sup>) in the Taranaki Basin. As part of its review of the PMLs to be acquired from Origin, the Company commissioned Deloitte LLP (“**Deloitte**”) to prepare an independent assessment of reserves and resources attributable to the PMLs, with an effective date of April 30, 2013. The TWN Reserve and Resource estimates are discussed below under “Description of Business – Statement of Reserves Data and Other Oil and Gas Information”. **Readers are cautioned that the TWN Reserves and Resources will not be attributed to the Company until the acquisition of assets from Origin is complete and the Company files an updated NI 51-101 reserve report.** The reserve and resource estimates were prepared in accordance with National Instrument 51-101 and are being filed with the TSX-V in connection with seeking final TSX-V approval for the Acquisition (conditional acceptance has already been received). Upon closing of the Acquisition, the Company will file the appropriate Form 51-101F1 reports on SEDAR.

### *Financings*

#### *Private Placements*

In October and December of 2010, the Company raised approximately \$5,921,500 through private placement financings.

In January and February of 2011, the Company raised approximately \$6,340,000 through private placement financings.

#### *Initial Public Offering*

On August 3, 2011, the Company completed its IPO and issued 20,000,000 common shares at a price of \$1.00 per common share for gross proceeds of \$20,000,000 through a syndicate of agents led by Canaccord Genuity Corp. and including GMP Securities L.P., Macquarie Capital Markets Canada Ltd., Haywood Securities Inc. and NCP Northland Capital Partners Inc. On August 4, 2011, the Company’s common shares were listed for trading on the TSX-V under the symbol “NZ”. On September 2, 2011, the Company closed the over-allotment option and issued an additional 1,910,500 common shares at a price of \$1.00 per common share, bringing the aggregate gross proceeds of the IPO to \$21,910,500. In connection with the IPO and over-allotment option, the agents received a 6% commission on the proceeds of the IPO, which was paid in cash and common shares (aggregate cash commission of \$626,025 and 688,605 common shares). In addition, the Company issued an aggregate of 657,315 advisor warrants exercisable to purchase common shares at a price of \$1.00 per common share until February 3, 2013. On January 16, 2013, 200,000 of the advisor warrants were exercised, with the remainder expiring on February 3, 2013.

#### *March 2012 Offering*

On March 21, 2012, the Company completed a bought deal financing by way of short form prospectus and issued 21,160,000 common shares at a price of \$3.00 per common share for gross proceeds of \$63,480,000 through a syndicate of underwriters led by Canaccord Genuity Corp. and including Macquarie Capital Markets Canada Ltd., Mackie Research Capital Company, PI Financial Corp. and Haywood Securities Inc. The underwriters elected to exercise the over-allotment option in full with respect to the financing. In connection with the financing and over-allotment option, the underwriters received a 6% commission on the proceeds of the financing (aggregate cash commission of \$3,808,800).

## ***Agreements***

### *IRBA Agreement*

On February 21, 2011, NZEC Management Limited, a wholly-owned subsidiary of the Company, entered into an asset purchase agreement (the “**IRBA Agreement**”) with Ian R. Brown Associates Limited (“**IRBA**”), pursuant to which NZEC Management Limited acquired certain of IRBA’s assets including geological data, office equipment and an office lease in Wellington, New Zealand. In addition, NZEC Management Limited offered employment to certain employees of IRBA. In consideration for the transfer of the assets, NZEC Management Limited paid \$400,000 to IRBA and the Company issued 2,000,000 common shares to IRBA, at a deemed price of \$0.50 per common share. IRBA is a private New Zealand company offering geological consulting services, beneficially owned by Dr Ian Brown and his wife. The common shares issued to IRBA are held pursuant to an escrow agreement.

### *Cooperation Agreement*

On February 22, 2012, the Company entered into a cooperation agreement with Te Runanga o Ngati Ruanui Trust (“**TRoNRT**”), the iwi located in South Taranaki near the Company’s Alton and Eltham permits. Under the terms of the cooperation agreement, TRoNRT will support NZEC’s exploration, development and production activities within the Ngati Ruanui area, and NZEC will contribute to cultural, economic and social initiatives for the development of Ngati Ruanui and its communities. The Company and TRoNRT have agreed to establish communication protocols and share environmental and technical information, and TRoNRT will provide the Company with cultural advice and support through the resource consent, permitting and development process. The Company also agreed to provide a right of first opportunity to TRoNRT’s members for business, employment, education and training opportunities in South Taranaki.

## ***Exploration and Production***

### *Taranaki Basin – Alton Permit*

As one of the conditions to acquire a 50% interest in the Alton permit, the Company agreed to drill the Talon-1 Well, targeting the Manutahi Sandstone on the Alton Permit. The prospect was chosen by L&M Energy based on interpretation of 2D seismic. The Talon-1 Well was drilled in July 2011 to a total measured depth (“**TMD**”) of 1,510 metres (total vertical depth (“**TVD**”) of 1,456 metres), intersecting the reservoir as expected but encountering only minor amounts of natural gas. The well was subsequently plugged and was reclaimed in 2012.

### *Taranaki Basin – Eltham Permit*

#### Copper Moki Site

On August 24, 2011, the Company announced that it had drilled and completed its Copper Moki-1 Well (“**CM-1**”) on the Eltham Permit. CM-1 was drilled to a TMD of 2,084 metres (TVD 1,846 metres), encountering hydrocarbon shows in both the Urenui and Mt. Messenger formations, and was completed over an interval of 12 metres in the Mt. Messenger Formation. CM-1 commenced continuous production on December 10, 2011 at an initial rate of 580 barrels of oil per day (“**bbl/d**”), producing ~41.8° API oil.

In 2012 the Company drilled three more wells on its Copper Moki pad on the Eltham Permit: Copper Moki-2 (“**CM-2**”), Copper Moki-3 (“**CM-3**”) and Copper Moki-4 (“**CM-4**”). CM-2 was drilled to a TMD of 2,084 metres (TVD 1,846 metres), encountering hydrocarbons in both the Urenui and Mt. Messenger formations, and was completed across 12 metres in the Mt. Messenger Formation. The well commenced continuous production on April 1, 2012 at an initial rate of 700 bbl/d, producing ~41.8° API oil.

CM-3 was drilled through the Urenui and Mt. Messenger formations to the deeper Moki Formation with a TMD of 3,167 metres (TVD 2,633 metres). The Company perforated and tested the Moki Formation and encountered reservoir rock with permeability and porosity and minor oil and gas shows, but did not make a commercial discovery. The Company then came uphole and perforated the Mt. Messenger Formation across 17.5 metres. The well commenced continuous production on July 2, 2012 at an initial rate of 242 bbl/d, producing ~40° API oil.

CM-1, CM-2 and CM-3 continued to flow from natural reservoir pressure until October 2012, when the Company commenced installation of artificial lift. All three wells have been on artificial lift (pumpjack) since November 2012. At the end of May the Company's Copper Moki wells had collectively produced a total of approximately 236,109 bbl (including sales from pre-production).

Production declines from the Copper Moki wells have been greater than expected and have prompted the Company to initiate a reservoir review. These wells are known to produce low pour point oil with associated wax. While a decline in production is expected over time, it is possible that the higher decline rates may be due not to reservoir conditions but rather to mechanical issues, including wax build-up down-hole or in the near well bore area. Oil analysis shows that the wax appearance temperature may be only slightly lower than the bottom-hole temperature, allowing wax to build up around the pump, in the perforations and potentially in the formation itself. The Company has conducted a number of tests to resolve this issue and has found that flow from the wells improves following condensate washes, which dissolve wax that has formed around the pump. The team is analyzing the results of condensate washes conducted to date in order to identify the optimal interval between each wash. Further work has been carried out by an independent firm to develop a pour point depressant that could be used to treat wax deposition at the pump and well bore. A trial is planned in the near term. In addition, the Company has engaged an independent reservoir management company to investigate the cause of and identify remedies to these issues in an effort to optimize oil production. Such remedies may include stimulation of well flow with condensate washes, modified pumping mechanisms or other forms of reservoir stimulation.

CM-4 was drilled through the Urenui Formation to the Mt. Messenger Formation (TMD 2,125 metres, TVD 1,927 metres) with the objective of testing the northeastern extent of the targeted Copper Moki prospect. Completion demonstrated that the well had encountered a portion of the Mt. Messenger Formation that was faulted and had not retained producible hydrocarbons. NZEC then moved uphole and perforated the Urenui Formation across four metres. A production test in May 2012 demonstrated that the well produces ~29° API oil with a higher temperature pour point than Mt. Messenger oil. The well is currently shut in while NZEC completes the well test analyses and economic evaluation of artificial lift systems required to make a production decision.

In 2012 the Company constructed an approximately 2.6-kilometre natural gas pipeline from the Copper Moki site to the Waihapa Production Station, but is not yet generating cash flow from its natural gas production.

#### Waitapu Site

The Waitapu site is located approximately 1.3 km south of the Copper Moki site.

The Waitapu-1 Well ("WT-1") was drilled during the fourth quarter of 2012 to a TMD of 2,213 metres (TVD 1,926 metres) and encountered a sand interval within the Mt. Messenger Formation with oil and natural gas shows. However, the permeability and porosity was such that the well did not immediately yield economic production. WT-1 has been suspended pending further evaluation and/or sidetrack to an alternate target.

The Waitapu-2 Well ("WT-2") was drilled in the fourth quarter of 2012 to a TMD of 2,085 metres (TVD 1,972 metres) and completed across 6 metres in the Mt. Messenger Formation. The well commenced commercial production on December 20, 2012 at an initial rate of approximately 151 bbl/d, producing ~40° API oil. At the end of May WT-2 had produced a total of approximately 18,956 bbl (including sales from pre-production). WT-2 continues to flow from natural reservoir pressure, and the Company is evaluating artificial lift options for the



well. To assist with reservoir studies at the Copper Moki wells, NZEC has run down-hole gauges into Waitapu-2 that will continually measure the bottom hole temperature and pressure of the reservoir. Like the Copper Moki wells, Waitapu-2 is producing from the Mt. Messenger Formation and the data will provide a good analogue for the Copper Moki reservoir. Waitapu-2 was shut in at the end of May for up to 90 days to gather valuable information for the planned reservoir study, while the Company also evaluates artificial lift options for the well.

The Company is considering a number of options to tie-in the Waitapu site, including the possibility of building a pipeline to deliver hydrocarbons and water from Waitapu to the Copper Moki site and natural gas to the Waihapa Production Station through the existing Copper Moki pipeline. A pipeline would minimize infrastructure at the Waitapu site, and ultimately reduce production costs associated with the well. The Company will consider all options as it evaluates the economics associated with artificial lift and infrastructure at the Waitapu site.

#### Arakamu Site

The Arakamu site is located approximately 3.8 km southwest of the Copper Moki site and 2.5 km south of the Waitapu site.

The Arakamu-2 Well (“**AK-2**”) was drilled in November 2012, reaching a TMD of 2,380 metres (TVD 1,870 metres) and encountering 18 metres of net pay over two separate intervals in the Mt. Messenger Formation. Completion commenced in December but the well encountered technical difficulties following perforation, when an inflow of sand resulted in tubing and the perforating gun getting stuck in the well. Workover activities commenced in January and continued through March. NZEC commenced testing AK-2 in mid-March and swab tested the intervals separately and in tandem for a total of 13 days. The well demonstrated strong inflow of oil, gas and water with the oil cut increasing, averaging more than 20% over the last three days of swab testing. The well is shut in pending the evaluation of artificial lift installation.

The Arakamu-1A Well (“**AK-1A**”) was drilled in December 2012 to the Moki Formation with a TMD of 2,900 metres (TVD 2,650 metres). NZEC perforated and flow tested two zones in the Moki Formation but was unable to demonstrate recoverable hydrocarbons, and suspended the well pending further evaluation.

#### Wairere Site

The Wairere site is located approximately 3.75 km southwest of the Copper Moki site and 7.5 km southwest of the Waihapa Production Station.

The Wairere-1 Well was drilled in February 2012 with a TMD of 1,971 metres (TVD 1,875 metres) but did not encounter any hydrocarbon-bearing sands. The Company immediately sidetracked the well to a second target (Wairere-1A, “**WR-1A**”), kicking off at a depth of 394 metres and reaching a TMD of 2,152 metres (TVD 1,879 metres). WR-1A intersected sands in the Mt. Messenger Formation with good hydrocarbon indications. The well was cased to total depth and completion is pending.

#### *East Coast Basin – Castlepoint and Ranui Permits*

In the fourth quarter of 2011, the Company completed the coring of two test holes on its 100% working interest Castlepoint Permit. The Orui (125 metres TMD) and Te Mai (195 metres TMD) test holes cored and tested the Waipawa and Whangai shales. In the second quarter of 2012, the Company completed 32.3 km of 2D seismic data in four lines across the Castlepoint Permit.

The Ranui Permit included the Ranui-1 Well, which was drilled in 2008 by the previous permit holder. Ranui-1 was drilled to a TMD of 1,135 metres and encountered a 224-metre vertical column of the Whangai shale, but did not penetrate the base of the shale package. The Company twinned Ranui-1 in February 2012 with the Ranui-

2 Well, which reached a TMD of 1,441 metres (TVD 1,422 metres) and drilled through the base of the Whangai shale and into the underlying conventional reservoir sands. The Company completed a full suite of open hole logs in Ranui-2 and cored the Whangai shale across three intervals. In the second quarter of 2012, the Company completed 37.9 km of 2D seismic data in three lines across the Ranui Permit.

These three stratigraphic test wells have advanced NZEC's understanding of the Waipawa and Whangai oil shale formations. A review of the geochemical and physical properties of the two shale packages, coupled with information from existing seismic data and new seismic data, is informing the Company's exploration strategy for the East Coast Basin.

The Company plans to drill one exploration well on both the Ranui and Castlepoint permits in the fourth quarter of 2013. The Company has met regularly with local communities to discuss its exploration plans, and has initiated the permitting and consent process for the drill locations.

#### *East Coast Basin – Wairoa Permit*

The Company completed a 50-km 2D seismic survey on the Wairoa Permit in the second quarter of 2013, and will finalize its exploration plans for the permit after reviewing all of the seismic and well log data.

#### ***Reserve Estimates***

In April 2012, the Company published its first reserve estimate based on the reservoir and production data from the Copper Moki-1 Well as at December 31, 2011. The evaluation and report were completed by Deloitte. Based on this report, the Company prepared and filed a Form 51-101F1 – Statement of Reserves Data and Other Oil and Gas Information (“**Form 51-101F1**”) dated April 27, 2012, with an effective date of December 31, 2011.

In October 2012, the Company released an interim reserve report, prepared by Deloitte to evaluate the Company's oil and gas reserves on the Eltham Permit based on reservoir and production data from the Copper Moki-1, Copper Moki-2 and Copper Moki-3 wells. Based on the this report, the Company prepared and filed an Interim Statement of Reserves Data dated October 23, 2012, with an effective date of September 30, 2012.

In March 2013, Deloitte prepared the Reserves Report evaluating the Company's oil and gas reserves on the Eltham Permit based on the reservoir and production data from four wells as at December 31, 2012. Based on the Reserves Report, the Company prepared and filed a Form 51-101F1 dated April 22, 2013, with an effective date of December 31, 2012. Results of the Reserves Report and Form 51-101F1 are discussed below under “Description of Business – Statement of Reserves Data and Other Oil and Gas Information”.

#### ***Senior Management Team***

During 2012 the Company significantly expanded both its leadership and support teams to ensure the Company has the expertise and experience required to continue to advance the Company and achieve corporate objectives. The Company has succeeded in attracting individuals with extensive knowledge of the oil and gas industry, bringing expertise in exploration geology, engineering, production and operations, and business management. Notable additions include Chris Bush as New Zealand Country Manager, Mike Oakes as General Manager Midstream Operations and Chris Ferguson as Chief Financial Officer (replacing the previous Chief Financial Officer based on a decision to move the role from Vancouver to New Zealand to allow for closer interaction with the Company's technical and accounting teams), as well as a number of important operations, legal, accounting and administrative positions in the Wellington and New Plymouth, New Zealand offices.

## DESCRIPTION OF BUSINESS

The Company has, to date, focused its activities in two areas of the North Island of New Zealand that it considers to be prospective for oil and natural gas. In the Taranaki Basin, on the west coast of the island, the Company has a 100% working interest in the Eltham Permit, a 65% interest in the Alton Permit, and a 60% interest in the Manaia Permit. The Company has also entered into agreements to acquire certain assets from Origin, including net three PMLs (the Tariki Licence, Waihapa Licence and Ngaere Licence) in the Taranaki Basin and the Waihapa Production Station, which, if completed, will give the Company an additional 23,049 acres (93.3 km<sup>2</sup>) of exploration and development area as well as control over a midstream processing facility. In the East Coast Basin the Company has a 100% working interest in the Castlepoint Permit and the Ranui Permit, an 80% interest in the Wairoa Permit (subject to completion of a joint operating agreement and final NZPAM approval), and has applied for but not yet been granted the East Cape Permit. Collectively, these permits cover net 2,055,917 million acres (8,320.0 km<sup>2</sup>) on New Zealand's North Island.

The Company's objective is to build a diversified oil and natural gas exploration and production company focused in New Zealand. The Company is planning to provide growth for shareholders by executing a technically disciplined exploration program focusing on the discovery of onshore and offshore oil and natural gas reserves in the politically and fiscally stable country of New Zealand.

To achieve this, the Company's strategy is to develop its existing portfolio of assets and to pursue further exploration opportunities in areas with proven hydrocarbon systems. The Company will continue to evaluate strategic acquisitions from time to time where it views further exploration and development opportunities exist. The Company may participate in future block offers by the Government of New Zealand to acquire additional exploration permits.

The Company uses the following general guidelines to evaluate the selection and participation in exploration and development prospects in order to minimize the risk inherent in exploration:

- known presence of a proven hydrocarbon system in the area;
- existence and availability of technical information allows preliminary evaluations;
- proximity to infrastructure allows for the shipment of oil and natural gas; and
- attractive economics using conservative price forecasts.

Oil and gas exploration in New Zealand is at a relatively early stage and the Company believes it currently has the competitive advantage of having access to large tracts of land with resource potential in both the Taranaki and East Coast basins.

### **Statement of Reserves Data and Other Oil and Gas Information**

Based on the Reserves Report, the Company prepared its annual Form 51-101F1 setting out reserves data for four wells on the Eltham Permit at the Company's December 31, 2012 year end. Form 51-101F1, along with Form 51-101F2 – Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor and Form 51-101F3 – Report of Management and Directors on Reserves Data and Other Information, are incorporated by reference into this AIF. Readers are encouraged to review these documents in full as they contain important information about the Company. Copies of these documents can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

Highlights of the annual Form 51-101F1 appear below.

**Summary of Oil and Gas Reserves  
As at December 31, 2012  
Forecast Prices and Costs**

Reserves Category	Light & Medium Oil (Mbbbl)		Natural Gas (MMcf)		Natural Gas Liquids (Mbbbl)		Barrels Oil Equivalent (MBOE)	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Proved								
Developed Producing	308	292	595	565	39	37	446	423
Developed Non-Producing	-	-	-	-	-	-	-	-
Undeveloped	20	20	32	30	2	2	28	27
<b>Total Proved</b>	<b>328</b>	<b>312</b>	<b>627</b>	<b>595</b>	<b>41</b>	<b>39</b>	<b>474</b>	<b>450</b>
Probable	158	150	330	313	21	20	235	223
<b>Total Proved + Probable</b>	<b>487</b>	<b>462</b>	<b>956</b>	<b>909</b>	<b>62</b>	<b>59</b>	<b>708</b>	<b>673</b>
Possible	196	180	398	366	26	24	288	265
<b>Total Proved + Probable + Possible</b>	<b>682</b>	<b>642</b>	<b>1,355</b>	<b>1,275</b>	<b>88</b>	<b>83</b>	<b>996</b>	<b>937</b>

**Notes:**

- (1) Mbbbl – Thousand barrels, MMcf – Million cubic feet, MBOE – Thousand barrels of oil equivalent
- (2) Gross reserves are the Company’s working interest (operating or non-operating) share before the deduction of royalty obligations payable to the New Zealand government.
- (3) Net reserves are the Company’s working interest (operating or non-operating) share after deduction of royalty obligations payable to the New Zealand government.
- (4) The term barrels of oil equivalent (“BOE”) may be misleading, particularly if used in isolation. The Company uses a standard measure of 6 Mcf : 1 bbl when converting natural gas to barrels of oil equivalent, or BOE. This conversion ratio is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**Summary of Net Present Value of Future Net Revenue  
Before Tax  
As at December 31, 2012  
Forecast Prices and Costs**

Reserves Category	Net Present Values of Future Net Revenues Before Tax, Discounted at %/year (in thousands of dollars unless otherwise noted)						Unit Value 10% (\$/BOE)
	0%	5%	8%	10%	15%	20%	
Proved							
Developed Producing	\$ 16,229	\$ 15,254	\$ 14,728	\$ 14,400	\$ 13,649	\$ 12,987	34.04
Developed Non-Producing	-	-	-	-	-	-	-
Undeveloped	1,061	972	924	893	823	760	33.07
<b>Total Proved</b>	<b>17,290</b>	<b>16,226</b>	<b>15,652</b>	<b>15,293</b>	<b>14,472</b>	<b>13,747</b>	<b>33.98</b>
Probable	10,216	8,584	7,789	7,320	6,327	5,536	32.83
<b>Total Proved + Probable</b>	<b>27,506</b>	<b>24,810</b>	<b>23,440</b>	<b>22,613</b>	<b>20,799</b>	<b>19,283</b>	<b>33.60</b>
Possible	12,174	9,460	8,237	7,549	6,172	5,154	28.48
<b>Total Proved + Probable + Possible</b>	<b>\$ 39,680</b>	<b>\$ 34,270</b>	<b>\$ 31,677</b>	<b>\$ 30,162</b>	<b>\$ 26,971</b>	<b>\$ 24,437</b>	<b>32.19</b>

Note that the preceding tables are based on information contained in the Reserves Report, which show the estimated share of the Company’s oil and natural gas reserves associated with the Eltham Permit and the net present value of estimated future revenue for these reserves using forecast prices and costs as indicated. The

estimated future net revenue figures contained in the preceding tables do not necessarily represent the fair market value of the Company's reserves. There is no assurance that the forecast price and cost assumptions contained in the Reserves Report will be attained, and variances could be material. Assumptions relating to costs and other matters are included in the Reserves Report. The recovery and reserve estimates of the Company's oil and natural gas reserves included in the annual Form 51-101F1 are estimates only and there is no guarantee that the estimated reserves will be recovered.

As part of its review of the assets to be acquired from Origin, the Company commissioned Deloitte to prepare an independent assessment of reserves and resources attributable to the PMLs, with an effective date of April 30, 2013. Reserves were constrained to the Tikorangi formation on the Waihapa and Ngaere licences, while resources were estimated for the Miocene Sands (Ureni, Mt. Messenger and Moki formations) and Eocene Sedimentary Rocks (Kapuni Group) on the Waihapa and Ngaere licences. **Readers are cautioned that the reserves and resources outlined in the following tables will not be attributed to the Company until the acquisition of assets from Origin is complete and the Company files an updated NI 51-101 reserve report.** The reserve and resource estimates were prepared in accordance with National Instrument 51-101 and are being filed with the TSX-V in connection with seeking final TSX-V approval for the Acquisition (conditional acceptance has already been received). Upon closing of the Acquisition, the Company will file the appropriate Form 51-101F1 reports on SEDAR.

**Marketable Oil and Gas Reserves Attributable to the TWN Licences  
As at April 30, 2013  
Forecast Prices and Costs**

<b>Reserves Category</b>	<b>Light &amp; Medium Oil (Mbbbl)</b>	<b>Natural Gas (MMcf)</b>	<b>Natural Gas Liquids (Mbbbl)</b>	<b>Barrels Oil Equivalent (MBOE)</b>
Proved Developed	983.7	762.0	26.7	1,137.4
Proved Undeveloped	258.1	206.5	7.2	299.8
<b>Total Proved</b>	<b>1,241.8</b>	<b>968.5</b>	<b>33.9</b>	<b>1,437.1</b>
Probable	610.9	479.3	16.8	707.6
<b>Proved + Probable</b>	<b>1,852.7</b>	<b>1,447.8</b>	<b>50.7</b>	<b>2,144.7</b>

**Notes:**

- (1) Mbbbl – Thousand barrels, MMcf – Million cubic feet, MBOE – Thousand barrels of oil equivalent
- (2) Reserves represent the Company's working interest (operating or non-operating) share before the deduction of royalty obligations payable to Origin and to the New Zealand government.
- (3) The term barrels of oil equivalent ("BOE") may be misleading, particularly if used in isolation. The Company uses a standard measure of 6 Mcf : 1 bbl when converting natural gas to barrels of oil equivalent, or BOE. This conversion ratio is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

**Net Present Value of Future Net Revenue Attributable to the TWN Licences Reserves  
Before Tax As at April 30, 2013  
Forecast Prices and Costs**

Net Present Value of Future Net Revenues Before Tax, Discounted at % per year							
Reserves Category	0% (\$'000)	5% (\$'000)	8% (\$'000)	10% (\$'000)	15% (\$'000)	20% (\$'000)	Unit Value 10% (\$'/boe)
Proved Developed	54,432	43,656	38,848	36,142	30,677	26,554	31.65
Proved Undeveloped	11,874	9,168	7,990	7,340	6,058	5,115	24.34
<b>Total Proved</b>	<b>66,306</b>	<b>52,824</b>	<b>46,838</b>	<b>43,482</b>	<b>36,735</b>	<b>31,669</b>	<b>30.12</b>
Probable	44,522	27,897	22,201	19,393	14,496	11,400	27.32
<b>Proved + Probable</b>	<b>110,828</b>	<b>80,721</b>	<b>69,039</b>	<b>62,875</b>	<b>51,231</b>	<b>43,069</b>	<b>29.20</b>

Risks and uncertainties which could cause the actual reserves to differ from those anticipated include, but are not limited to, the underlying risks of the oil and gas industry (operational risks in development, exploration and production; potential delays or changes in plans with respect to work programs or expenditures; uncertainty of reserves estimates; uncertainty in production and cost projections; political and environmental factors), commodity price and exchange rate fluctuations.

Reserves are classified according to the degree of certainty associated with the estimates. Proved reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves.

**Oil and Gas Resources Attributable to the TWN Licences  
As at April 30, 2013**

Resource Category	MBOE		
	Low	Best	High
Contingent Resources	567	1,162	2,426
Prospective Resources	10,825	23,541	54,368
Discovered Petroleum Initially in Place (PIIP)	1,529	2,976	5,889
Undiscovered Petroleum Initially in Place (PIIP)	31,145	63,955	138,781

**Notes:**

- (1) MBOE – Thousand barrels of oil equivalent. The term barrels of oil equivalent (“BOE”) may be misleading, particularly if used in isolation. The Company uses a standard measure of 6 Mcf : 1 bbl when converting natural gas to barrels of oil equivalent, or BOE. This conversion ratio is based on an energy equivalency method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.
- (2) Contingent and prospective resources estimated assuming 9 to 14% recovery for oil resources and 50% recovery for gas resources.

Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Prospective resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. Undiscovered resources means those quantities of oil and gas estimated on a given date to be contained in accumulations yet to be discovered. The resources reported in the Company’s public documents are estimates only and there is no certainty that any portion of the reported resources will be discovered and that, if discovered, it will be economically viable or technically feasible to produce.

## **Additional Information Regarding the Company's Oil and Gas Assets**

### ***Taranaki Basin***

The Taranaki Basin is currently New Zealand's only oil and gas producing basin, producing approximately 130,000 BOE/d from 18 fields. Within the Taranaki Basin, the Company holds and is the operator of three permits covering 187,104 net acres (757.2 km<sup>2</sup>). The Eltham Permit and Alton Permit are on trend with numerous existing and historically producing oil and gas fields, including the 1.4 Tcf and 60 MMbbl Kapuni gas field producing from the Kapuni Formation, the 29 Bcf and 24 MMbbl Waihapa/Ngaere oil field which produced from the Kapuni and Tikorangi formations, the 64 Bcf and 10 MMbbl Rimu/Kauri oil field producing from the Tariki Sandstone, and the Cheal oil field producing from the Urenui and Mt. Messenger formations.

The Taranaki Basin offers multi-zone potential and the Company's exploration strategy is to prioritize wells identified on 3D seismic that have well-defined, lower-risk Mt. Messenger targets coupled with additional exploration potential from the Urenui, Moki or Kapuni formations. The Company completed a 100 km<sup>2</sup> 3D seismic survey in 2012 toward the north end of the Eltham Permit and Alton Permit. The Company's technical team then merged those data with four other 3D seismic surveys covering the Eltham Permit and offsetting areas, providing seamless coverage and tremendous insight into the geology and prospectivity of the region. The Company continues to interpret and refine the data to further define existing targets and reduce drilling risk while potentially identifying new exploration targets and expanding the Company's inventory of drill-ready locations.

The Company has also entered into agreements to acquire certain assets in the Taranaki Basin from Origin. The assets include four PMLs (the Tariki Licence, Ahuroa Licence, Waihapa Licence and Ngaere Licence). Immediately upon closing of the acquisition the Company intends to transfer the Ahuroa Licence to Contact, leaving the Company with three licences (the Tariki, Waihapa and Ngaere licences) covering 23,049 acres (93.3 km<sup>2</sup>) that are contiguous with the northern border of the Eltham and Alton Permits. These licences offer multi-zone potential from the Urenui, Mt. Messenger, Moki, Tikorangi and Kapuni formations. Included with these licences are 16 established drill pads with gathering systems in place, 3D seismic data covering approximately 50% of the licences and 585 km of 2D seismic data. The Company also has access to well log data from 27 previously drilled wells.

Completion of the acquisition of assets from Origin will bring additional exploration targets to the Company's inventory, along with the Waihapa Production Station. The Waihapa Production Station and associated infrastructure includes a 45 MMcf/d gas processing, gas compression and liquefied petroleum gas extraction facility, a 51-km 8-inch gas sales pipeline from the Waihapa Production Station to the Stratford gas power generation plant then terminating at New Plymouth, 59 km of oil/gas mixed product pipelines including gas lift lines, a 25,000 bbl/d oil processing facility, a 49-km oil sales pipeline from the Waihapa Production Station to the Omata Tank Farm capable of transporting up to 15,500 bbl/d, and an 18,000 bbl/d water disposal processing system.

Completion of the acquisition from Origin is subject to a number of conditions precedent. See "General Development of the Business – Acquisition of Property Portfolio – Assets from Origin Energy Limited" for more information.

### ***Eltham Permit***

The Eltham Permit is located in southeast Taranaki, within the eastern Taranaki Basin. The Eltham Permit covers approximately 93,166 acres (377 km<sup>2</sup>) of which approximately 31,877 acres (129 km<sup>2</sup>) are offshore in shallow water. The Company owns a 100% interest in the Alton Permit.

The Company has drilled ten exploration wells on the Eltham Permit. Four have been advanced to production (CM-1, CM-2, CM-3, WT-2), collecting and cumulatively producing a total of approximately 255,065 bbl as at the end of May from the Mt. Messenger Formation, including oil produced during testing. The wells produce ~41° degree API oil that is trucked to the Shell-operated Omata tank farm and sold at Brent pricing, resulting in an average field netback for the quarter ended March 31, 2013 of \$45.39/bbl (\$70.08/bbl during the year ended December 31, 2012). The Company calculates the field netback as the oil sale price less fixed and variable production costs and a 5% net sales revenue royalty. The netback will fluctuate with variances in Brent pricing and production costs.

One well (CM-4) made an oil discovery in the Urenui Formation and has been shut-in pending additional economic analysis and evaluation of artificial lift options. One well (AK-2) made an oil discovery in the Mt. Messenger Formation and has been shut-in pending evaluation of artificial lift options. One well (WR-1A) was drilled to the Mt. Messenger Formation and encountered hydrocarbon shows, with completion pending. WT-1 is shut-in pending further testing or sidetrack to an alternate target and AK-1A, a Moki Formation well, is suspending pending further evaluation. Only one well, WR-1, failed to encounter hydrocarbons and was immediately sidetracked. See “General Development of the Business – Exploration and Production – Taranaki Basin – Eltham Permit” for more information regarding the Company’s exploration and production activities to date.

The minimum work program for 2012 has been met and the 2013 minimum work program has been substantially met. In 2013 the Company is required to process 60 km<sup>2</sup> of 3D seismic data and to prepare various technical studies. In June 2013 the Company expects to lodge an application with the Crown to convert 3,953 acres (16.0 km<sup>2</sup>) on the Eltham Permit, comprising the Copper Moki field and surrounding acreage with petroleum discoveries, into a PMP. By September 22, 2013, the Company is required to relinquish 50% of the remainder of the Eltham Permit (which will have been reduced by the area converted to a PMP) as part of its application to extend the permit to September 2018.

On February 25, 2013, the Company announced the decision to delay additional drilling on its Eltham permit to focus on commercial opportunities in the pending acquisition of assets from Origin. The Company’s objective is to increase near-term production and cash flow while reducing exploration expenses, and the Company believes that opportunities exist on the PMLs to achieve this objective. While this decision in no way diminishes the Company’s view of the prospectivity of the Eltham permit, the Company intends to focus in the near-term on lower-cost opportunities that are close to infrastructure.

#### *Alton Permit*

The Alton Permit covers approximately 119,204 acres (482.4 km<sup>2</sup>) and is located onshore immediately adjacent to the east of the Eltham Permit. The Company owns a 65% interest in the Alton Permit in a joint arrangement with L&M Energy. See “General Development of the Business – Exploration and Production – Taranaki Basin – Alton Permit” for information regarding the Company’s exploration activities to date.

The minimum work program for 2012 has been met. In 2013 the partners are required to drill an exploration well and prepare two technical reports. By September 22, 2013, the partners are required to relinquish 50% of the Alton Permit as part of their application to extend the permit to September 2018.

The Company expects to commence drilling a Mt. Messenger target well in the third quarter of 2013. The Company is responsible for expenditures and is entitled to profits for its respective interest in the permit.

#### *Manaia Permit*

The Manaia Permit covers approximately 27,426 onshore acres (111.0 km<sup>2</sup>) adjacent to the southwest of the Eltham Permit. The Company was awarded a 60% interest in the Manaia Permit during the 2012 New Zealand



Block Offer, in a joint arrangement with NZOG. The permit was granted for a five-year term commencing December 11, 2012. The minimum work program requires the Company to collect and process 70 km of 2D seismic data and to prepare various technical studies within 18 months of the grant date. The Company anticipates commencing activities related to land access and permitting in late 2013. There has been very little exploration on the Manaia Permit to date. The partners' first priority is to advance the property with continued reprocessing and interpretation of the existing 90 km of 2D seismic data, and the acquisition of new 2D and 3D seismic data on the property.

#### *Origin Exploration Assets*

The Company has entered into an agreement to purchase upstream and midstream assets from Origin Energy. The exploration assets consist of four PMLs (Tariki Licence, Ahuroa Licence, Waihapa Licence, Ngaere Licence) totaling 26,097 onshore acres (108.9 km<sup>2</sup>) directly adjacent to the north of the Company's Eltham and Alton permits. Twenty-seven wells have been drilled on the PMLs and the properties have a long history of oil and gas production that confirms the presence of hydrocarbons in this region. The acquisition includes all well log data, 585 km of 2D seismic and 93 km<sup>2</sup> of 3D seismic data that covers approximately 50% of the PMLs to the south and overlaps onto offsetting permits. Immediately upon closing of the Acquisition, the Company intends to transfer the Ahuroa Licence (totaling 3,857.3 acres, 15.6 km<sup>2</sup>) and a small portion of the Ngaere Licence to Contact, resulting in net ownership for the Company of three licences (Tariki, Waihapa and Ngaere) ("TWN Licences") totaling 23,049 acres (93.3 km<sup>2</sup>).

The Company has completed an extensive review of the 3D seismic and well data on the permits and identified opportunities to reactivate oil production from existing wells, recomplete existing wells uphole in shallower formations, and drill new exploration targets in the Kapuni, Tikorangi, Mt. Messenger, Moki and Urenui formations.

Upon closing of the Acquisition, the Company plans to reactivate an established gas lift system for six existing wells on the TWN Licences to recommence oil and gas production from the Tikorangi formation. The Company has also determined that six wells that previously produced from the Tikorangi formation have uphole completion potential in the shallower Moki, Mt. Messenger and Urenui formations. Reactivation and uphole completion of these wells would be significantly less expensive and faster than drilling new wells, and economic discoveries could be quickly tied in to the Waihapa Production Station using existing oil and gas gathering pipelines. Both the reactivations and uphole completions could bring near-term, low-cost production and cash flow to the Company.

The Company's technical team has also identified five high-priority Mt. Messenger targets on the Waihapa and Ngaere permits of the TWN Licences that could be accessed from one drill site. The Company has completed permitting for a new site to access these targets, called Waipapa (Oru Rd).

Longer-term exploration plans on the TWN Licences include accessing Mt. Messenger targets from 16 existing drill pads with gathering systems in place, which offer lower-cost exploration potential and can be tied-in to the Waihapa Production Station on an expedited basis. The resource evaluation also confirmed the prospectivity of the deeper Moki and Kapuni formations on the TWN Licences. Discoveries by other companies on offsetting permits have demonstrated significant flow rates and long-term production from reservoirs in these deeper formations.

#### *Origin Production and Infrastructure Assets*

The midstream assets include the Waihapa Production Station and associated gathering, transportation and sales infrastructure. The Waihapa Production Station has the capacity to process 45 MMcf/d of natural gas (subject to Contact's priority rights which terminate on commissioning of the 18" pipeline), handle 25,000 bbl/d of oil and dispose of 18,000 bbl/d of water. The infrastructure includes a 49-km 15,500 bbl/d oil sales pipeline from the

Waihapa Production Station to the Omata Tank Farm, a 51-km 8-inch gas sales pipeline from the Waihapa Production Station to New Plymouth, a 70 tonne/d capacity LPG processing plant, and storage containers related to oil, gas and water. Owning the Waihapa Production Station and associated assets will provide the Company with the ability to process gas, recover liquefied petroleum gas, and process oil and dispose of water, in addition to delivering oil and gas production to market using the sales pipelines. As the only open-access midstream facility in the Taranaki Basin, the Waihapa Production Station also offers business opportunities for processing third-party gas, liquids, oil and water. The Waihapa Production Station is located approximately 2.6 km from the Company's Copper Moki site and is central to the Company's inventory of exploration prospects, and would therefore be expected to reduce transportation and processing costs for the Company's oil and gas production.

WPSL and Contact have agreed to complete a joint study to determine the potential to loop gas through the Waihapa Production Station. Based on the success of that study, expected to be completed in Q3-2013, WPSL proposes to enter into agreements with Contact to trial a process termed "gas throughput". This process will provide a natural gas supply to the Company that will allow it to fully test the Waihapa Production Station and test the economics of natural gas liquids extraction. In addition, the gas supplied will be used to "gas lift" six wells in the Tikorangi Formation estimated to have remaining oil and gas reserves. It is anticipated that the wells will produce oil, natural gas and water and that the Company will have a net increase in the amount of gas supplied and can sell excess natural gas into the market. There can be no certainty as to the tenure of the arrangement or that the gas throughput trial will be successful. See "Risk Factors – Gas Throughput Trial".

If the conditions to closing are fulfilled, the Company expects closing of the Acquisition to occur in September 2013. See "General Development of the Business – Acquisition of Property Portfolio – Assets from Origin Energy Limited".

### ***East Coast Basin***

The East Coast Basin of New Zealand's North Island hosts two prospective oil shale formations, the Waipawa and Whangai, which have been identified as the source of more than 300 oil and gas seeps. Within the East Coast Basin, the Company holds and is the operator of four permits covering 2, 055,917 million net acres (net 8,320 km<sup>2</sup>) (assuming the Company is granted rights to the East Cape Permit and receives regulatory approval of the transfer of an 80% interest in the Wairoa Permit and completes the associated joint operating agreement).

#### *Castlepoint Permit*

The Company owns a 100% interest in the Castlepoint Permit, which covers approximately 551,045 onshore acres (2,230 km<sup>2</sup>) in the Wairarapa region of the East Coast Basin. See "General Development of the Business – Exploration and Production – East Coast Basin – Castlepoint and Ranui Permits" for information regarding exploration activities to date. The minimum work program for 2012 has been met. The minimum work program requirements for 2013 include drilling an exploration well and making a commitment to continue with the following year's work program. The Company plans to drill the exploration well in the fourth quarter of 2013, and has initiated the community engagement and technical assessments required to obtain land access consents and permits for the drill location.

#### *Ranui Permit*

The Company owns a 100% interest in the Ranui Permit, which is adjacent to the Castlepoint Permit to the southwest and covers approximately 223,087 onshore acres (902.8 km<sup>2</sup>) in the Wairarapa region of the East Coast Basin. See "General Development of the Business – Exploration and Production – East Coast Basin – Castlepoint and Ranui Permits" for information regarding exploration activities to date. The minimum work program for 2012 has been met. The minimum work program requirements for 2013 include drilling an exploration well and the acquisition, processing and interpretation of 30 km of 2D seismic data. The Company

plans to drill the exploration well in the fourth quarter of 2013, and has initiated the community engagement and technical assessments required to obtain land access consents and permits for the drill location.

#### *Wairoa Permit*

The Company is negotiating a joint operating agreement with Westech, and is awaiting regulatory approval of the transfer of an 80% interest in the Wairoa Permit to the Company's wholly-owned subsidiary, NZEC Wairoa Ltd. (see "General Development of the Business – Acquisition of Property Portfolio – Wairoa Permit" for more information). The proposed work program for the Wairoa Permit, which is subject to approval of the Minister of Energy, will require the Company to complete various technical studies, reinterpret existing seismic data, shoot and interpret additional 2D seismic data, and drill two exploration wells by March 2016. The Company and NZEC Wairoa Ltd. have the right to withdraw from the joint venture after drilling the first exploration well.

The Company completed a 50-km 2D seismic survey on the Wairoa Permit in the second quarter of 2013, and will finalize its exploration plans for the permit after reviewing all of the seismic and well log data.

#### *East Cape Permit*

The East Cape Permit will cover approximately 1,067,495 onshore acres (4,320 km<sup>2</sup>) in the Raukumara region of the East Coast Basin, on the northeast tip of the North Island. On September 3, 2010, East Coast Energy Ventures Limited applied to the Minister of Energy for the East Cape Permit and subsequently transferred that application to ECEV II Limited, a wholly-owned subsidiary of the Company. The application was uncontested and the Company anticipates that the East Cape Permit will be granted to ECEV II Limited upon completion of NZPAM's review of the application. No work has been done on the East Cape Permit at this time.

### **Employees**

The Company currently employs, directly and indirectly, 9 people in Canada and 29 people in New Zealand. Additional contractors are hired for specialty work as required, with as many as 70 people working for the Company during peak exploration periods. The Company employs people from local communities as much as possible to support exploration and development activities. Pursuant to a Cooperation Agreement between the Company and TRoNRT, the iwi located in South Taranaki near the Company's Eltham and Alton Permits, the Company endeavors to employ qualified TRoNRT members to support its exploration, development and production activities.

In 2012 the Company added seven people to its New Zealand administrative and financial team. In addition, the Company hired a New Zealand Country Manager, a General Manager Midstream Operations, an Operations Manager and a New Zealand-based Chief Financial Officer, all individuals with decades of oil and gas experience and New Zealand expertise. NZEC will continue to recruit industry professionals and support staff as required to ensure the Company can meet its exploration and production milestones and long-term growth objectives.

### **Competitive Conditions**

The oil and natural gas industry is highly competitive. The Company encounters competition from other independent operators and from major oil companies in acquiring oil and natural gas properties suitable for exploration, development and production; contracting for drilling equipment; securing trained personnel; obtaining transportation access to storage, refining and production infrastructure; entering into contracts for the sale of oil, natural gas and natural gas liquids; and for capital to finance such activities. Many of these competitors have financial resources and personnel available to them that are substantially larger than that of the Company.

## **Economic Dependence**

The Company's subsidiary Taranaki Ventures Limited has an agreement with Shell (Petroleum Mining) Company Limited pursuant to which Shell (Petroleum Mining) Company Limited has agreed to purchase all of the Company's crude oil, which the Company trucks to the Shell-operated Omata tank farm in New Plymouth, New Zealand.

## **Environmental Protection**

In New Zealand, the Resource Management Act 1991 (the "RMA") controls users of natural and physical resources, including oil and gas explorers. The RMA places an emphasis on assessment of the effects a proposed activity will, or might, have on the environment with a view to promoting sustainable management. Under the RMA, most of the responsibility for managing resources and their use is given to local authorities. Regional and district councils must produce and continuously update planning schemes for their jurisdictions that establish procedures and standards for assessing and controlling activities in accordance with the RMA. See also "Regulatory Regime – Resource Consents" below.

The Company is committed to upholding high environmental standards. The Company carries out its activities and operations in compliance with all relevant and applicable environmental regulations and best industry practices. At present, the Company believes it has included appropriate amounts in its capital expenditure budget to continue to meet its environmental obligations. See "Risk Factors – Environmental Risks" and "Risk Factors – Carbon Emissions Regime".

## **Foreign Operations**

The Company's material properties are located in New Zealand. As such, a substantial portion of the Company's business is exposed to various degrees of political, economic and other risks and uncertainties (see "Risk Factors"). The Company's operations and investments may be affected by local political and economic developments, including expropriation or invalidation of government orders, permits or agreements pertaining to property rights, political unrest, labour disputes, limitations on repatriation of earnings, limitations on mineral exports, limitations on foreign ownership, inability to obtain or delays in obtaining necessary permits, opposition to oil and gas exploration from local, environmental or other non-governmental organizations, government participation, royalties, duties, rates of exchange, high rates of inflation, price controls, exchange controls, currency fluctuations, taxation and changes in laws, regulations or policies as well as bylaws and policies of Canada affecting foreign trade, investment and taxation.

## **Regulatory Regime**

Companies operating in the oil and natural gas industry in New Zealand are subject to extensive regulation and control of operations, which should be carefully considered by investors. It is not expected that any of these regulations or controls will affect the Company's operations in a manner materially different than they will affect other oil and natural gas companies of similar size. Outlined below are some of the principal aspects of legislation, regulations and agreements governing the oil and gas industry in New Zealand.

The current government of New Zealand strongly supports New Zealand's oil and natural gas exploration efforts with a view to reducing the country's dependence on oil imports and increasing revenues and employment. A priority item of the government's Energy Strategy 2011 is to focus its efforts on facilitating the development of petroleum resources. In particular, the government's Petroleum Action Plan includes:

- Reviewing the fiscal and royalty framework to ensure the government receives a fair return from petroleum resources while providing sufficient incentives for investors;

- Investing in data acquisition to improve resource knowledge and foster more investment, particularly in frontier resources; and
- Developing a fit-for-purpose legislative framework for the petroleum sector.

### ***Granting of Petroleum Exploration Permits***

The *Crown Minerals Act 1991* (as amended from time to time) and the regulations issued thereunder (“**Crown Minerals Act**”), governs the management and allocation of rights in respect of oil and natural gas and other minerals owned by the Crown. All oil and natural gas is owned by the Crown. The Crown Minerals Act requires the Minister of Energy to prepare minerals programs, outlining the policies on which the government must base its management decisions in relation to Crown-owned minerals, and the procedures and provisions that are to be followed in implementing these policies and the requirements of the Crown Minerals Act.

The Minerals Programme for Petroleum (2013) prepared by the Minister of Energy (“**Minerals Programme for Petroleum**”) provides clarity to participants as to the permit application process and the conditions under which permits to prospect, explore or mine for petroleum may be granted. It also details the operating rules and investment parameters, including the rights to subsequent permits and payment to the Crown of any royalties. The Minerals Programme for Petroleum 2005 was recently replaced by the Minerals Programme for Petroleum 2013 for all new and amended permits.

Petroleum exploration permits (“**PEPs**”) are granted through a block offer, as described below. PEPs also used to be granted through priority in time applications, but this method of permitting was discontinued effective February 1, 2012. To qualify for a PEP the applicant must demonstrate its technical and financial capacity and be approved by the Minister of Energy. PEPs were previously granted for an initial period of five years, but following recent reforms will be granted for a period of up to 15 years, although onshore permits are usually granted for up to ten years only. PEPs are subject to minimum work requirements as laid out in the PEP conditions. The permit holder is typically required to provide the Minister of Energy with a commitment to undertake the minimum work program for a certain period, as specified in the permit. The terms of the permit may require the permit holder, if it is unable to provide such a commitment, to relinquish the permit. The PEPs can be surrendered, in respect of all or part of that permit area, at any time by notice to the Minister of Energy. Any such surrender of a permit will not release the permit holder from any liability in respect of the permit, or any act done under the permit, up to the date of surrender.

The holder of an existing PEP holder may, at the end of the initial five-year term, apply to extend the duration of an exploration permit for a further period not exceeding ten years from the commencement date of the PEP. However, there are some conditions that apply, including relinquishment of what is likely to be at least half of the area comprising the PEP at the time of the end of the first term. This is required by section 35C of the Crown Minerals Act. The Minister can impose such relinquishment obligation in certain circumstances, but there may only be two of them during the life of a permit, totaling no more than 75% of the total permit area.

A permit holder can also reduce the area of permit at any time by applying to partially surrender the permit area. However, any relinquishment of part or parts of a permit area is not taken into consideration if the Minister imposes a relinquishment. A permit holder may also apply to the Minister of Energy to extend the land over which the permit relates or to amend the conditions of the permit. The retained area must usually be contiguous.

If, as a consequence of drilling a well, a petroleum discovery is made and a permit duration would be insufficient to allow for the discovery to be appraised, then a permit holder may apply for a special appraisal extension of an exploration permit, pursuant to section 35A of the Crown Minerals Act. An appraisal will not allow the permit holder to undertake further general exploration in the permit area.

### *Priority in Time Application*

The priority in time application process was discontinued effective February 1, 2012, and all PEPs are now granted under the block offer process. Under the priority in time application process, certain areas of New Zealand, both onshore and offshore, that were not reserved for a block offer (described below) had been identified by NZPAM as being available for a priority in time application for a PEP. As part of a priority in time application, the applicant made a submission to the Minister of Energy stating the geographic area, the geological setting, and the work commitment that the applicant was prepared to undertake on the PEP over a five-year period. The successful applicant was chosen on the basis of its work program and technical and financial capacity. If no competing offers were submitted, the PEP was posted as pending while NZPAM consulted with stakeholders and generally assessed the application.

The Company's applications for the Castlepoint Permit and East Cape Permits were priority in time applications, and the Ranui Permit was granted to the previous permit holder pursuant to a priority in time application. The East Cape Permit application is still under consideration by NZPAM and the permit has not yet been granted to the Company; no competing offers were submitted.

### *Block Offer*

A block offer is a competitive tender allocation process pursuant to which NZPAM advertises and offers specific areas known as "blocks" and bids are received and evaluated accordingly. NZPAM will identify areas that it considers should be available on a competitive basis and will make known its intention to post block offerings in a certain area. The blocks will be defined geographically and a minimum work requirement will be posted. A deadline for offers is set and bidders must submit their work commitment offers that meet or exceed the minimum work requirements set out by NZPAM. The successful bidder and the work commitment is posted on the NZPAM website.

The Eltham Permit and Alton Permit were granted to the previous permit holders pursuant to a block offer. The Manaia Permit was granted to the Company and NZOG in December 2012 pursuant to a block offer.

### *Petroleum Mining Permits/Licences*

If a petroleum discovery is made, the PEP holder is required to apply for a petroleum mining permit ("PMP") prior to mining that petroleum. PMPs are granted to enable the development of an oil and/or natural gas field with the purpose of extraction and production. A PMP also allows the holder to undertake prospecting or exploration activities in the area over which the PMP is held. PMPs may be granted for a period of up to 40 years and are renewable without relinquishment, subject to government approval.

Prior to 1991, petroleum mining licences ("PMLs") were awarded under the *Petroleum Act 1937* and essentially provide a similar framework for mining petroleum.

### *Resource Consents*

Resource consents may be required from regional and district councils to permit certain exploration or subsequent mining activities which, if granted, could be subject to conditions to minimize potential environmental impact. These resource consents allow the use of natural resources, as well as discharges into the environment, in an effort to regulate the environmental effects of any exploration and development activities. As part of the resource consent application process, consultation usually takes place with potentially affected parties (e.g. landowners, neighbours, statutory authorities, Maori).

### ***Surface Access***

PEPs and PMLs/PMPs do not provide or guarantee the holder any right of access in respect of any of the underlying land over which the permit relates. Surface access to exploration and drilling sites located on PEPs and PMLs/PMPs must be negotiated with public or private landowners. If agreement cannot be reached with the landowner, then there is an arbitration process available under the Crown Minerals Act for most land, but excluding some conservation areas and national parks.

### ***Royalty Regime***

The rules for permit royalties differ depending on the age of a particular permit. The Petroleum Act 1937 sets out royalties for permits granted pre-1991, the Minerals Programme for Petroleum sets out royalties for permits granted between 1995 and 2013, and the Crown Minerals (Royalties for Petroleum) Regulations 2013 set out royalties for new permits. In general, a permit holder will be liable for the payment of royalties to the Crown in respect of all petroleum obtained under the permit and which is either sold or used in the production process as fuel or is exchanged or removed from the permit area without sale.

In respect of most PEPs, the permit holder will be liable to pay a 5% ad valorem royalty (i.e. 5% of the net revenues obtained from the sale of petroleum).

In respect of PMLs/PMPs, under the current legislation, the permit holder will be liable to pay either a 5% ad valorem royalty or a 20% net accounting profits royalty, whichever is the greater in any given year. Accounting profits (for the purposes of petroleum royalties) are calculated as the excess of net sales revenues over total allowable deductions as defined by the Minerals Programme for Petroleum. Allowable deductions include, but are not limited to, production, exploration, development, permit maintenance, consent, feasibility study, decommissioning and capital costs. PMLs that have never had net sales revenue in excess of NZ\$1 million in a reporting period are liable for only the 5% ad valorem royalty.

The three PMLs to be acquired by the Company from Origin are subject to an earlier royalty regime under the *Petroleum Act 1937*, which is 10% of any petroleum produced at the “Point of Valuation”. As the Point of Valuation is upstream of the point of sale for all hydrocarbons produced, a number of deductions are allowed that are expected to reduce the effective royalty rate as measured at the point of sale.

### ***Corporate Tax Structure***

The New Zealand income tax rate for companies is 28% of taxable income. Taxable income is calculated after allowing for deductions against assessable income.

The New Zealand petroleum mining income tax regime treats all income from petroleum mining activities as assessable income. However, the distinction between capital and revenue expenditure is largely disregarded. The petroleum mining tax rules apply a separate regime for amortising costs associated with petroleum assets. The petroleum mining tax regime applies only to persons undertaking petroleum mining operations in a permit area.

### ***Foreign Investment in New Zealand***

New Zealand’s regulations governing foreign investment are liberal by international standards, as New Zealand maintains targeted foreign investment restrictions in only a few areas of critical interest.

Overseas investments in New Zealand assets are screened only if they are defined as sensitive within the *Overseas Investment Act 2005* (the “**Investment Act**”). Three broad classes of asset are currently defined as sensitive within the Investment Act: acquisition of a 25% or greater ownership interest in business assets valued

at over NZ\$100 million or an acquisition of securities where the consideration provided exceeds NZ\$100 million; all fishing quota investments; and investment in sensitive land as defined in the Investment Act. Examples of sensitive land include rural land over five hectares or land bordering or containing foreshore, seabed, river, or the bed of a lake. Most urban land is not screened unless defined as sensitive for other reasons. A full list of sensitive assets is defined in the Investment Act. If the Company or any of its subsidiaries seeks an interest in sensitive land, then consent from the Overseas Investment Office (the Government entity that administers the Investment Act) may need to be obtained prior to that interest being acquired by the Company or its subsidiaries. Investors must pass an investor test that considers character, business experience and acumen and the level of financial commitment to the investment. Overseas investors wishing to purchase sensitive land must either intend to reside permanently in New Zealand or demonstrate that the investment will benefit New Zealand. The criteria for assessing this benefit are set out in the Investment Act and the regulations.

The proposed acquisition of assets from Origin (see “General Development of the Business – Acquisition of Property Portfolio – Assets from Origin Energy Limited) required consent to purchase the land upon which the Waihapa Production Station is situated, since the land is considered sensitive land under the Investment Act. Consent for the land acquisition was granted in March 2013.

There are no restrictions on the movement of funds into or out of New Zealand, or on repatriation of profits. No additional performance measures are imposed on foreign-owned enterprises.

## **DIVIDENDS**

The Company has paid no dividends since its inception. At the present time, the Company intends to retain any earnings for corporate purposes. The payment of dividends in the future will depend on the earnings and financial condition of the Company and on such other factors as the Board of Directors of the Company may consider appropriate. However, since the Company is currently in a development and growth stage, it is unlikely that earnings, if any, will be available for the payment of dividends in the foreseeable future.

## **CAPITAL STRUCTURE**

### **Authorized and Issued Share Capital**

#### ***Common Shares***

The authorized share capital of the Company consists of an unlimited number of common shares. As of the date of this AIF, 121,969,105 common shares were issued and outstanding as fully paid and non-assessable shares. The holders of the common shares are entitled to receive notice of and to attend and vote at all meetings of the shareholders of the Company and each common share confers the right to one vote in person or by proxy at all meetings of the shareholders of the Company. The holders of the common shares, subject to the prior rights, if any, of any other class of shares of the Company, are entitled to receive such dividends in any financial year as the Board of Directors may by resolution determine. In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, the holders of the common shares are entitled to receive, subject to the prior rights, if any, of the holders of any other class of shares of the Company, the remaining property and assets of the Company.

#### ***Stock Options and Warrants***

As of the date of this AIF the Company has 9,981,200 stock options issued and outstanding entitling the holders to purchase up to 9,981,200 common shares at exercise prices ranging from \$1.00 to \$3.00 per common share. The Company has no warrants currently outstanding.



## MARKET FOR SECURITIES

### Trading Price and Volume

The Company's common shares have been listed for trading on the TSX-V since August 4, 2011 under the symbol "NZ". The Company's common shares are also quoted on the OTCQX International under the symbol "NZERF".

The following table sets forth the price range and volume of common shares traded on the TSX-V on a monthly basis for the periods indicated:

Month	High (\$)	Low (\$)	Volume
January 2012	1.78	1.08	11,879,904
February 2012	3.79	1.60	26,680,505
March 2012	3.45	2.79	14,666,716
April 2012	3.19	2.39	13,108,060
May 2012	2.90	2.16	9,855,900
June 2012	2.09	1.52	6,837,600
July 2012	1.98	1.61	5,311,600
August 2012	2.39	1.54	6,944,900
September 2012	2.18	2.04	4,998,700
October 2012	2.15	1.59	7,368,000
November 2012	1.74	1.15	7,313,900
December 2012	1.48	1.23	3,376,500
January 2013	1.41	0.78	13,130,901
February 2013	0.86	0.33	12,393,245
March 2013	0.70	0.40	4,649,044
April 2013	0.53	0.32	5,542,141
May 2013	0.49	0.30	7,858,560
June 1 – 13, 2013	0.47	0.34	2,289,219

The closing price of the Company's common shares on the TSX-V on June 13, 2013, the last complete trading day prior to the date of this AIF, was \$0.425.

## Prior Sales

The Company's stock options are not listed or quoted on a marketplace. The stock options issued since the beginning of the most recently completed financial year are as follows:

Date Issued	Type of Security	Number Issued	Exercise Price	Expiry Date
January 18, 2012	Stock Options	523,000 <sup>(1)</sup>	\$1.30	January 18, 2017
March 6, 2012	Stock Options	125,000	\$3.00	March 6, 2017
April 25, 2012	Stock Options	176,000	\$3.00	April 25, 2017
July 11, 2012	Stock Options	240,000	\$1.73	July 11, 2017
July 24, 2012	Stock Options	1,000,000	\$1.68	July 24, 2017
July 30, 2012	Stock Options	625,000	\$1.81	July 30, 2017
August 7, 2012	Stock Options	84,000	\$1.68	August 7, 2017
September 14, 2012	Stock Options	906,000 <sup>(2)</sup>	\$2.00	September 14, 2017
October 4, 2012	Stock Options	175,000	\$2.03	October 4, 2017
October 16, 2012	Stock Options	132,000	\$2.04	October 16, 2017
January 8, 2013	Stock Options	179,200	\$1.37	January 8, 2018
January 10, 2013	Stock Options	132,000	\$1.35	January 10, 2018
February 4, 2013	Stock Options	172,000	\$1.00	February 4, 2018
February 25, 2013	Stock Options	230,000	\$1.00	February 25, 2018
March 4, 2013	Stock Options	84,000	\$1.00	March 4, 2018

**Note:**

- (1) 67,500 of these stock options terminated on April 24, 2013, and a further 67,500 of these stock options expire on July 24, 2013.  
(2) 101,250 of these stock options terminated on April 24, 2013, and a further 33,750 of these stock options expire on July 24, 2013.

## ESCROWED SECURITIES AND SECURITIES SUBJECT TO RESTRICTIONS

To the knowledge of the Company, as at the date of this AIF a total of 24,415,800 common shares of the Company, or 20% of the shares currently issued and outstanding, are held in escrow and/or are subject to pooling. Certain of the escrow and pooling restrictions described below are overlapping.

### Escrow Shares

Designation of Class	Number of Securities held in Escrow	Percentage of Class
Common Shares	19,735,200 <sup>(1)</sup>	16.2%

**Note:**

- (1) In accordance with National Policy 46-201 – *Escrow for Initial Public Offerings*, a total of 43,856,000 common shares controlled by directors and officers of the Company were escrowed at the time of the Company's IPO pursuant to an escrow agreement with Computershare Investor Services Inc. of Canada. 10% of the securities were released from escrow on the date the Company's common shares were listed for trading on the TSX-V (August 3, 2011), a further 15% of the securities were released from escrow on each of February 3, 2012, August 3, 2012 and February 3, 2013, and the remaining 19,735,200 escrow securities will be released in 15% tranches every six months thereafter.

## Pooled Shares

Designation of Class	Number of Securities Subject to Restriction	Percentage of Class
Common Shares	23,515,800 <sup>(1)</sup>	19.3%

**Note:**

- (1) A total of 42,756,000 common shares controlled by directors and officers of the Company were voluntarily pooled at the time of the Company's IPO pursuant to a pooling agreement with Computershare Investor Services Inc. of Canada. 10% of the securities were released from pool on February 3, 2012, six months from the date the Company's common shares were listed on the TSX-V, 15% were released on August 3, 2012, 20% on February 3, 2013 and the remaining 23,515,800 pooled securities will be released in 20%, 20% and 15% tranches every six months thereafter.

## Summary of Escrow Agreement and Pooling Agreement

As a result of the Escrow Agreement and Pooling Agreement, common shares held by the above shareholders will be released in accordance with the following schedule:

Release Date	Number of Common Shares
August 3, 2013 (24 months after the TSX-V listing date)	8,851,200
February 2, 2014 (30 months after the TSX-V listing date)	8,851,200
August 3, 2014 (36 months after the TSX-V listing date)	6,713,400
<b>Total</b>	<b>24,415,800</b>

## DIRECTORS AND OFFICERS

### Name, Occupation and Security Holding

The following table sets out the names of the current directors and executive officers of the Company, provinces or states and countries of residence, positions with the Company, principal occupations within the five preceding years and periods during which each director or executive officer has served as a director or officer.

Name, Municipality of Residence and Position With the Corporation	Director/ Officer Since	Principal Occupation for the Past Five Years <sup>(1)</sup>	Number of Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Discretion is Exercised
John A. Greig, M.Sc., P.Geo. <sup>(2)(3)(4)</sup> Chairman, Director Vancouver, British Columbia Canada	Director since November 1, 2010  Officer since January 1, 2011	Chairman of the Company since 2010. Businessman, investor and financier. Currently serves as a director of Blackstone Ventures Inc., a TSX-V listed company and Magna Resources Ltd., a Canadian National Stock Exchange listed company. During the past 5 years he also served as a director of Diamondex Resources Ltd. (1999 to 2008), a TSX-V listed company.	11,800,000

Name, Municipality of Residence and Position With the Corporation	Director/ Officer Since	Principal Occupation for the Past Five Years <sup>(1)</sup>	Number of Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Discretion is Exercised
John G. Proust, C.Dir. <sup>(3)(4)</sup> Chief Executive Officer, Director, Promoter Vancouver, British Columbia Canada	Director since October 29, 2010  Officer since January 1, 2011	Chief Executive Officer of the Company since October 2010. Independent businessman and President of J. Proust & Associates Inc., through which Mr. Proust is the founder of numerous public and private companies, including the Company, Southern Arc Minerals Inc. (director and Chief Executive Officer, since 2004), Canada Energy Partners Inc. (director and Chairman, since 2006), Bryant Resources Inc. (director, Chief Executive Officer and President, since 2007), and Charlotte Resources Ltd. (director, Chief Executive Officer and President, since 2010).	20,486,000 <sup>(5)</sup>
Bruce G. McIntyre, P.Geol. Executive Director Calgary, Alberta Canada	Director since November 1, 2010  Officer since January 1, 2011	Executive Director of the Company since July 2012, President of the Company from January 2011 to July 2012. Independent consultant and President of Wexford Energy Ltd., a private company that provides consulting services for the development and operation of producing natural gas companies (private and public), since July 2007. Formerly President and CEO of Sebring Energy Inc., a private Alberta based exploration and production company from 2004 to 2007.	5,460,000
Hamish J. Campbell, B.Sc., (Geology), FAusIMM <sup>(2)</sup> Director Jakarta, Indonesia	November 1, 2010	Principal and director of PT. Jasa Prima Raya, an Indonesian mining service company, since 2001. Vice President of Exploration, then Executive Vice President, for Southern Arc Minerals Inc., a TSX-V listed company, from 2005 to May 2012. Director of Southern Arc Minerals Inc. from May 2012 to November 2012.	2,510,000

Name, Municipality of Residence and Position With the Corporation	Director/ Officer Since	Principal Occupation for the Past Five Years <sup>(1)</sup>	Number of Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Discretion is Exercised
Christopher J. Bush, BE (Chem) (Hons), CFA New Zealand Country Manager New Plymouth, New Zealand	July 21, 2012	New Zealand Country Manager of the Company since July 2012. Previously General Manager New Zealand for Origin Energy Limited, an Australian Securities Exchange listed company, since 2007. Formerly Vice President Facilities – SENZ for Swift Energy Company, a New York Stock Exchange listed company, from 2001 to 2007. Member of the Petroleum Exploration and Production Association of New Zealand since 2007 (Chairman since January 2012).	Nil
Ian R. Brown, B.Sc. (Hons), MPhil., DEng., MIPENZ Chief Operating Officer Lower Hutt, New Zealand	March 1, 2011	Chief Operating Officer of the Company since March 2011. Previously founder and principal of Ian R Brown Associates Limited. Dr. Brown has directed Ian R Brown Associates Limited, a geological engineering consultancy company with offices in Wellington, New Zealand, and Vancouver, Canada, since 1985.	2,020,000
Christopher J. Ferguson, BMS, CA Chief Financial Officer New Plymouth, New Zealand	February 25, 2013	Chief Financial Officer of the Company since February 2013. Previously Contracts Superintendent for Origin Energy NZ Ltd from January 2012 to February 2013. Finance and Planning Manager for Origin Energy NZ Ltd from June 2008 to December 2011. Formerly Accounting Manager – SENZ for Swift Energy Company, a New York Stock Exchange listed company, from 2002 to 2008.	Nil
Celeste M. Curran, LLB, BA (Hons) Vice President Corporate and Legal Affairs Vancouver, British Columbia Canada	January 7, 2011	Vice President Corporate and Legal Affairs of the Company since January 2011. Managing the Canadian and international legal affairs of public and private companies as an employee of J. Proust & Associates Inc. since May 2010. J. Proust & Associates Inc. is a private company that organizes, manages and advises numerous public and private companies. Formerly a City Solicitor and Solicitor for the City of Richmond from 2007 to 2010.	376,500

Name, Municipality of Residence and Position With the Corporation	Director/ Officer Since	Principal Occupation for the Past Five Years <sup>(1)</sup>	Number of Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Discretion is Exercised
<p>Rhylin P.A. Bailie, B.E.S. Vice President Communications and Investor Relations Burnaby, British Columbia Canada</p>	<p>July 11, 2011</p>	<p>Managing the communications and investor relations programs of public companies as an employee of J. Proust &amp; Associates Inc. since July 2011. Vice President Communications and Investor Relations of the Company and also of Southern Arc Minerals Inc. Formerly Director Communications and Investor Relations for NovaGold Resources Inc., a Toronto Stock Exchange and AMEX listed company, from 2010 to 2011, Manager Communications and Investor Relations for NovaGold Resources Inc. from 2006 to 2010.</p>	<p>4,100</p>
<p>Cliff P. Butchko, P.Eng, MBA (Hons) General Manager Upstream Operations Calgary, Alberta Canada</p>	<p>April 1, 2011</p>	<p>General Manager Upstream Operations of the Company since July 2012. Formerly Senior Vice President of the Company from December 1, 2011 to July 25, 2012, and Vice President, Engineering from April 1, 2011 to November 30, 2011. Independent business and technical consultant and President of Butchko Resource Management and partner of TIFF Business Advisory Group, both private entities providing consulting and advisory services to oil and natural gas companies. Independent petroleum resource owner as President of Omni Oil &amp; Gas Inc., a private Alberta-based resource company.</p>	<p>50,000</p>
<p>Micheal G. Oakes General Manager Midstream Operations New Plymouth, New Zealand</p>	<p>July 11, 2012</p>	<p>General Manager Midstream Operations of the Company since July 2012. Formerly Operational Excellence Advisor for Origin Energy Australia since June 2011, Asset Manager for Origin Energy New Zealand from January 2010 to June 2011, and Operations Manager from July 2005 to December 2009. Technical Advisor for Total E&amp;P Borneo from June 2004 to April 2005.</p>	<p>Nil</p>

Name, Municipality of Residence and Position With the Corporation	Director/ Officer Since	Principal Occupation for the Past Five Years <sup>(1)</sup>	Number of Shares Beneficially Owned, Directly or Indirectly, or Over Which Control or Discretion is Exercised
Gerrie van der Westhuizen, CA Vice President Finance North Vancouver, British Columbia Canada	November 29, 2012	Vice President Finance of the Company since November 2012. Previously Controller for Baja Mining Corp., a public mining company listed on the TSX and registered with the SEC, from October 2008. Following a change in control of Baja Mining Corp.'s flagship project (Minera Boleo) in August 2012, assumed the role of Vice President Finance for Minera Boleo until joining the Company. Formerly an audit manager in PwC Vancouver's Mining Group from 2006 to October 2008.	Nil
Eileen Au, B.Sc. Corporate Secretary Vancouver, British Columbia Canada	October 29, 2010	Corporate Secretary of the Company since October 2010. Corporate Secretary for public and private companies as an employee of J. Proust & Associates Inc., a private company that organizes, manages and advises numerous public and private companies.	326,834

**Notes:**

- (1) The information as to principal occupation, business or employment is not within the knowledge of the management of the Company and has been furnished by the respective directors and officers.
- (2) Denotes a member of the Audit Committee of the Company.
- (3) Denotes a member of the Nominating Committee of the Company. John A. Greig is the Chair of the Nominating Committee.
- (4) Denotes a member of the Compensation Committee of the Company. John A. Greig is the Chair of the Compensation Committee.
- (5) 226,000 of these common shares are beneficially owned by The Proust Family Trust, which is controlled by Mr. Proust, and 100,000 of these common shares are beneficially owned by Gwen Proust, mother of Mr. Proust.

The term of each of the current directors of the Company will expire at the next annual general meeting unless his office is earlier vacated in accordance with the Articles of the Company or he becomes disqualified to act as a director.

As a group the directors and executive officers beneficially own or control a total of 43,033,434 common shares, or 35.3% of the common shares of the Company.

**Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

To the knowledge of the Company, no director or executive officer of the Company, or a personal holding company of such person is, as at the date of this AIF, or has been, within 10 years before the date of this AIF, a director, chief executive officer ("CEO") or chief financial officer ("CFO") of any company that:

- (a) was subject to a cease trade or similar order to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more

than 30 consecutive days, that was issued while the director or executive officer was acting in the capacity as a director, CEO or CFO of such company; or

- (b) was subject to a cease trade or similar order to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the director or executive officer ceased to be a director, CEO or CFO but which resulted from an event that occurred while the director or executive officer was acting in the capacity as director, CEO or CFO of such company.

Other than as specified below, to the knowledge of the Company, no director or executive officer of the Company, or a shareholder holding a sufficient number of securities to affect materially the control of the Company, or a personal holding company of such person:

- (a) is, as at the date of this AIF, or has been within 10 years before the date of this AIF, a director or executive officer of any company (including the Company) that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (b) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director, executive officer or shareholder;
- (c) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (d) has been subject to any penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

Ms. Bailie filed for bankruptcy in British Columbia in May 2003 and received an absolute discharge effective March 24, 2004.

### **Conflicts of Interest**

The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interests that they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

To the best of the Company's knowledge, and other than disclosed herein, there are no known existing or potential conflicts of interest among the Company, its subsidiaries, directors and officers or other members of management of the Company or of any proposed director, officer or other member of management as a result of their outside business interests except that certain of the directors and officers serve as directors and officers of other companies, and therefore it is possible that a conflict may arise between their duties to the Company and their duties as a director or officer of such other companies.



## AUDIT COMMITTEE

The primary function of the Audit Committee (“Committee”) is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the following: (a) the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders; (b) the Corporation’s systems of internal controls regarding finance and accounting; and (c) the Corporation’s auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels. The Committee’s primary duties and responsibilities are to (i) serve as an independent and objective party to monitor the Corporation’s financial reporting and internal control system and review the Corporation’s financial statements; (ii) review and appraise the performance of the Corporation’s external auditors; (iii) provide an open avenue of communication among the Corporation’s auditors, financial and senior management and the Board of Directors; and (iv) ensure the highest standards of business conduct and ethics.

### Composition of the Audit Committee

The Audit Committee comprises the following members: John A. Greig and Hamish J. Campbell. Each member of the Committee is considered to be independent. In addition, each member of the Committee is considered to be financially literate as defined by NI 52-110 in that they have the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Company’s financial statements. D. Kenneth Truscott, a director and chair of the Committee, resigned on February 9, 2013 due to personal health reasons. The Board is actively seeking a replacement for Mr. Truscott.

### Relevant Education and Experience

*John A. Greig* – Mr. Greig, M.Sc., P.Geo., has served on several boards and held senior officer positions for a number of successful exploration and development projects since 1969, both in Canada and internationally. He currently serves on the audit committee of Blackstone Ventures Inc., a TSX-V listed company and previously served on the audit committee of EuroZinc Mining Corp., a Toronto Stock Exchange and American Stock Exchange listed company. This experience has provided Mr. Greig with an understanding of the accounting principles used by the Company to prepare its financial statements. Mr. Greig’s experience also allows him to analyze or evaluate the Company’s financial statements.

*Hamish J. Campbell* – Mr. Campbell’s, B.Sc. (Geology), FAusIMM, experience includes senior management positions responsible in areas of finance, compliance, business development and strategic planning in relation to establishing and maintaining both local and foreign-owned mining service companies. Mr. Campbell is responsible for designing and implementing exploration programs, along with evaluating and assessing joint venture and acquisition opportunities. He is a director of a number of New Zealand limited liability mineral and petroleum companies, along with being the principal of an Indonesian mining service company. He was previously a director of TSX-V listed company Southern Arc Minerals Inc. This experience has provided Mr. Campbell with an understanding of the accounting principles used by the Company to prepare its financial statements and allows him to analyze or evaluate the Company’s financial statements.

### Audit Committee Charter

The Company has adopted a Charter of the Audit Committee of the Board of Directors, a copy of which is attached as Schedule A.

### **Audit Committee Oversight**

Since the commencement of the Company's most recently completed financial year, the Board of Directors has not failed to adopt a recommendation of the Audit Committee to nominate or compensate an external auditor.

### **Pre-approval Policies and Procedures**

The Audit Committee has not adopted specific policies and procedures for the engagement of non-audit services. Subject to the requirements of NI 52-110, the engagement of non-audit services is considered by the Board of Directors, and where applicable by the Audit Committee, on a case-by-case basis.

### **External Auditor Service Fees**

Fees billed by the Company's external auditor are categorized as follows: (a) "audit fees" are fees billed by the Company's external auditor for services provided in auditing the Company's annual financial statements for the subject year; (b) "audit-related fees" are fees not included in audit fees that are billed by the auditor for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements; (c) "tax fees" are fees billed by the auditor for professional services rendered for tax compliance, tax advice and tax planning; and (d) "all other fees" are fees billed by the auditor for products and services not included in the foregoing categories.

The fees paid by the Company to its auditor in each of the last two fiscal years, by category, are as follows:

<b>Financial Year Ending</b>	<b>Audit Fees</b>	<b>Audit Related Fees</b>	<b>Tax Fees</b>	<b>All Other Fees</b>
December 31, 2012	\$191,450	\$47,300	\$107,159	\$345,909
December 31, 2011	\$40,000	\$90,613	\$2,000	\$132,613

### **Exemption**

The Company is currently relying on the exemption provided by section 6.1 of NI 52-110 which provides that the Company, as a venture issuer, is not required to comply with Part 3 (Composition of the Audit Committee) of NI 52-110.

## **PROMOTERS**

Since the Company's incorporation on October 29, 2010, John G. Proust, a director and officer of the Company, may be considered to have been a promoter as defined in securities laws. Mr. Proust owns or exercises control or direction over 20,486,000 common shares and 750,000 stock options to purchase common shares, being 17.4% of the issued and outstanding common shares of the Company. All other disclosure required regarding Mr. Proust is included elsewhere in this AIF.

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

The Company is not a party to any material legal proceedings or regulatory actions and is not aware of any such proceedings or actions known to be contemplated.

While it is not material, the Company notes that on May 29, 2013, one of its wholly-owned subsidiaries, Taranaki Ventures Limited, received a NZ\$20,000 fine in connection with the release of a small amount of oil at its Copper Moki site. In assessing this matter, the court declined the company's application for discharge without conviction but noted its company's previously unblemished record and considerable efforts to mitigate the spill and cooperate with Taranaki Regional Council. The fine has been paid and there are no other outstanding issues related to this matter.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Other than as disclosed below, no informed person (a director, officer or holder of 10% or more common shares) or any associate or affiliate of any informed person had any interest in any transaction that has materially affected or is reasonably expected to materially affect the Company or any of its subsidiaries, since the Company's incorporation on October 29, 2010.

### **Amended and Restated Consulting Agreement between J. Proust & Associates Inc., John G. Proust and the Company**

The Company entered into an amended and restated consulting agreement dated July 13, 2011 with John G. Proust and J. Proust & Associates Inc. ("JPA"). JPA is a private British Columbia company beneficially owned by John G. Proust. Pursuant to the agreement, JPA provides consulting services, including the services of the Company's CEO, Corporate Secretary, CFO, Vice President Corporate and Legal Affairs, Vice President Communications and Investor Relations, and certain other finance, accounting and administrative services. For the period from incorporation to December 31, 2010, the Company paid a total of \$143,360 to JPA. During the financial years ended December 31, 2011 and 2012, the Company paid \$889,280 and \$1,196,888, respectively, to JPA.

### **IRBA Agreement**

NZEC Management, a wholly-owned subsidiary of the Company, entered into the IRBA Agreement dated February 21, 2011 with IRBA, pursuant to which NZEC Management acquired certain of IRBA's assets. In consideration for the transfer of the assets, NZEC Management paid \$400,000 to IRBA and the Company issued 2,000,000 common shares to IRBA, at a deemed price of \$0.50 per common share. IRBA is a private New Zealand company beneficially owned by Dr. Brown and his wife.

## **AUDITORS**

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, of PricewaterhouseCoopers Place, 250 Howe Street, Suite 700, Vancouver, British Columbia, V6C 3S7. PricewaterhouseCoopers LLP were first appointed as auditors for the Company on February 24, 2011.

## **TRANSFER AGENT AND REGISTRAR**

The Company's transfer agent and registrar is Computershare Investor Services Inc. of 3<sup>rd</sup> Floor, 510 Burrard Street, Vancouver, British Columbia, V6C 3B9.

## **MATERIAL CONTRACTS**

The only material agreements or contracts that the Company has entered into since the beginning of the financial year ended December 31, 2012, or that were entered into before this time but are still in effect, and were not entered into in the ordinary course of business, are as follows:

1. Indemnity agreement dated July 7, 2011 between Discovery Geo, ECEV III Limited and the Company, pursuant to which Discovery Geo agreed to indemnify the Company and ECEV III Limited against any and all claims for existing royalties or the right to receive future royalties in excess of 3% on the Ranui Permit.

2. Amended and restated consulting agreement dated July 13, 2011 between JPA, John G. Proust and the Company.
3. Underwriting agreement dated effective as of March 1, 2012 between Canaccord Genuity Corp., Macquarie Capital Markets Canada Ltd., Mackie Research Capital Company, PI Financial Corp., Haywood Securities Inc. and the Company regarding the Company's bought deal financing by way of short form prospectus.
4. Contract for purchase of crude dated December 21, 2012 between Shell (Petroleum Mining) Company Limited and Taranaki Ventures Limited (a wholly-owned subsidiary of the Company), pursuant to which Shell (Petroleum Mining) Company Limited has agreed to purchase the Company's crude exported from the tank farm at Omata, New Plymouth.
5. Agreement for purchase and sale of assets dated June 14, 2013 between Origin Energy Resources NZ (TAWN) Limited, WPSL, NZEC Tariki, NZEC Ahuroa, NZEC Waihapa, NZEC Ngaere, Origin Energy Limited and the Company, which sets out the terms of the sale of assets from Origin Energy Resources NZ (TAWN) Limited to certain subsidiaries of the Company, as more particularly described under "General Development of the Business – Acquisition of Property Portfolio – Assets from Origin Energy Limited".
6. Term Sheet Agreement dated June 14, 2013 between Contact and the Company, which sets out the general terms of the sale of the Ahuroa Licence to Contact, contribution by the Company to the pipeline being constructed by Contact, and an agreement for the Company to provide certain services to Contact, among other matters, all as more particularly described under "General Development of the Business – Acquisition of Property Portfolio – Assets from Origin Energy Limited".

A copy of any material contract may be inspected during normal business hours at the Company's offices at Suite 1200, 750 West Pender Street, Vancouver, British Columbia, Canada.

### **EXPERTS**

Deloitte LLP, independent petroleum engineers of Calgary, Alberta prepared the Reserves Report and the Report on Reserves Data by Independent Qualified Reserves Evaluator or Auditor. As of the date of this AIF, the principals of Deloitte LLP do not beneficially own, directly or indirectly, any common shares of the Company.

PricewaterhouseCoopers LLP audited the financial statements of the Company for its financial year ended December 31, 2011. PricewaterhouseCoopers LLP is independent of the Company in accordance with the rules of professional conduct of the Institute of Chartered Accountants in British Columbia, Canada.

### **OTHER MATERIAL FACTS**

John A. Grieg, Chairman and a director of the Company, and John G. Proust, Chief Executive Officer, director and promoter of the Company, provided the New Zealand Minister of Energy with personal undertakings in connection with the Company's acquisition of the Castlepoint Permit and East Cape Permit. Pursuant to the undertakings, Messrs. Greig and Proust agreed to make sufficient financial resources available to East Coast Energy Ventures Limited and ECEV II Limited if those companies did not have sufficient financial resources to pay any fees or other amounts due or to perform any obligations under the Castlepoint Permit or East Cape Permit work programs. On April 24, 2012, NZPAM unconditionally released Messrs. Greig and Proust from these undertakings.

An officer of the Company is the spouse of a partner of Morton Law LLP, a law firm which renders legal services to the Company. The officer holds 376,500 common shares of the Company, representing approximately

0.3% of the currently issued and outstanding common shares, as well as stock options with the right to purchase a further 300,000 common shares.

## **RISK FACTORS**

An investment in the Company's securities is highly speculative due to the nature of the Company's involvement in the exploration for, and the acquisition, development and production of, oil and natural gas reserves and resources in New Zealand. The Company's business is subject to the risks normally encountered in the oil and natural gas industry such as the marketability of, and prices for, oil and natural gas, competition with companies having greater resources, acquisition, exploration and production risks, need for capital, fluctuations in the market price and demand for oil and natural gas, the regulation of the oil and natural gas industry by various levels of government and public protests. The success of further exploration or development projects cannot be assured. In addition, the Company's operations are primarily outside of Canada and are subject to risks arising from political instability, foreign exchange and foreign regulatory regimes. Investors must rely upon the ability, expertise, judgment, discretion, integrity and good faith of the management of the Company.

In addition to the other information presented in this AIF, the following risk factors should be given special consideration when evaluating an investment in any of the Company's securities. Such risks may not be the only risks facing the Company. Additional risks not currently known may also impair the Company's business operations and results of operations.

### **Early Stage of Development, Limited Operating and Earnings History**

The Company only recently commenced operations in New Zealand. Accordingly, the Company has limited operating history in the oil and natural gas industry in New Zealand and has limited meaningful, historical financial information, record of performance or earnings history. The Company's business plan requires significant expenditures, particularly capital expenditures, on oil and natural gas exploration. Any future profitability from the Company's business will be dependent upon the continued production from CM-1, CM-2, CM-3 and WT-2, and successful exploration and development of the balance of the Company's oil and natural gas properties. There can be no assurance that the Company will achieve profitability in the future. The Company only has oil and natural gas reserves on its Eltham Permit and not on any of its other properties. The extent of future revenues is variable and uncertain and accordingly the Company is unable to predict when, if at all, profitability will be achieved. The Company will use its current working capital to fund any negative operating cash flow.

### **Production, Exploration and Development Risks**

The long-term commercial success of the Company depends on its ability to continue to produce oil and natural gas, and to drill successful exploration wells and commercially produce oil and natural gas from those exploration wells. Production, exploration, appraisal and development of oil and natural gas properties is highly speculative and involves a significant degree of risk. Without the addition of new reserves, the Company's existing reserves will decline over time as such reserves are exploited. Any discovery of or future increase in the Company's reserves may depend not only on its ability to explore and develop its existing properties, but also on its ability to select and acquire additional properties or prospects. There is no assurance that further commercial quantities of oil and natural gas will be discovered or acquired by the Company.

### **Gas Throughput Trial**

WPSL and Contact have agreed to complete a joint study to determine the potential to loop gas through the Waihapa Production Station. While the Company has a high degree of confidence that the joint study will be successful, there is a risk to WPSL that Contact may not proceed with the looping trial and that implementation of gas lift on the six wells will be delayed. If the study is successful, the Company proposes to enter into

agreements with Contact to enable the Company to trial a process termed “gas throughput”. This process will provide a natural gas supply to the Company that will allow it to blend natural gas from its Copper Moki and other gas producing assets with the “gas throughput” gas and extract the natural gas liquids. In addition the gas supplied will also be used to “gas lift” six wells currently completed in the Tikorangi Formation. There can be no certainty as to the tenure of the arrangement or that the gas throughput trial will be successful. The Company will assume certain liabilities to Contact and other third parties.

If the looping trial does not result in a long-term solution, the Company will be required to pursue alternative methods for processing gas at the Waihapa Production Station and implementing its gas lift strategy on the six wells. While the Company has explored alternatives to looping, none of the alternatives are sufficiently advanced to ensure that they can be implemented at this time.

### **Potential Profitability Depends on Factors Beyond Company’s Control**

The potential profitability of oil and natural gas exploration is dependent on many factors beyond the Company’s control. Exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs.

Profitability also depends on the costs of operations, including costs of labour, equipment, fuel and electricity, which fluctuate in ways the Company cannot predict and that are beyond the Company’s control. Such fluctuations will impact profitability and may eliminate profitability altogether. In addition, correcting drilling hazards or environmental damage caused by operations could greatly increase the cost of those operations, and various field operating conditions may adversely affect production from successful wells. These conditions include delays in obtaining, or the ability to obtain on acceptable commercial terms, governmental and other approvals or consents, insufficient storage or transportation capacity, other geological and mechanical conditions, or entering into purchase agreements for the Company’s oil, natural gas and natural gas liquids on commercially acceptable terms. While diligent well supervision and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can adversely affect revenue and cash flow levels to varying degrees.

### **Estimates of Reclamation and Asset Retirement Costs**

The amount of reclamation and asset retirement costs is difficult to predict accurately and may be substantial. Upon closing of the proposed acquisition of assets from Origin, the Company will also assume liability for reclamation costs associated with the existing wells and infrastructure on the TWN Licences. The Company is also liable for reclamation and asset retirement costs in relation to wells it has drilled and the Ranui-1 Well drilled by Discovery Geo, the previous holder of the Ranui Permit.

### **Marketability and Price of Oil and Natural Gas**

The marketability and price of oil and natural gas that may be produced may be affected by numerous factors beyond the Company’s control. The Company may be affected by the differential between the price paid by refiners for light, quality oil and various grades of oil produced. The Company is subject to market fluctuations in the prices of oil and natural gas, deliverability uncertainties related to access to gas processing facilities, oil storage, proximity of reserves to pipeline and processing facilities and government regulation relating to prices, taxes, royalties, land tenure, allowable production, the export of oil and natural gas and many other aspects of the oil and natural gas business. In addition, certain of the Company’s PEPs may be subject to third-party royalties, other than those the Company has been advised of by the parties from which such PEPs were acquired.

## **Market Price of Common Shares**

The trading price of securities in oil and natural gas issuers is subject to substantial volatility. This volatility is often based on factors both related and unrelated to the financial performance or prospectus of the issuers involved. The market price of the common shares of the Company could be subject to significant fluctuations in response to variations in the Company's operating results, financial condition, liquidity and other internal factors. Factors that could affect the market price of the common shares of the Company that are unrelated to the Company's performance include domestic and global commodity prices and market perceptions of the attractiveness of particular industries. The price at which the common shares of the Company will trade cannot be predicted.

## **Operating Hazards and Risks**

Exploration for natural resources involves many risks, which even a combination of experience, knowledge and careful evaluation may not be able to overcome. Operations in which the Company has a direct or indirect interest will be subject to all the hazards and risks normally incidental to exploration, development and production of natural resources, including but not limited to: blow-outs; explosions; cratering; pipeline breaches; vandalism; terrorist acts; strikes or lockouts; environmental liability due to the release of prohibited substances into the environment; and natural disasters such as earthquakes, tsunamis and volcanic activity. The occurrence of any such operating hazards could result in work stoppages; damage to persons; damage to or destruction of oil and natural gas wells, formations, facilities or other property; interruption of production; and possible environmental damage. Although the Company may obtain liability insurance in an amount which is expected to be adequate, the nature of these risks is such that liabilities might exceed policy limits, the liabilities and hazards might not be insurable, or the Company might not elect to insure itself against such liabilities due to high premium costs or other reasons, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition.

## **Environmental Risks**

The Company is subject to laws and regulations that determine and control the ability to discharge materials and noise into the environment, require removal and cleanup in certain circumstances, require the proper handling and disposal of restricted or waste materials, decommissioning of test or well sites as well as production facilities, pipelines and related infrastructure, or otherwise relate to the protection of the environment and surrounding residents. In operating and owning oil and natural gas interests, the Company may be liable for damages and the costs of removing oil and natural gas with respect to spills for which it is held responsible. Laws relating to the protection of the environment have become more stringent in New Zealand in recent years and may, in certain circumstances, impose strict liability, rendering the Company liable for environmental damage without regard to negligence or fault on the Company's part. Such laws and regulations may expose the Company to liability for the conduct of, or conditions caused by others or for acts of the Company that were in compliance with all applicable law at the time such acts were performed. There is also the risk that operations may be required to stop if certain environmental laws, noise restrictions or authorizations under those laws are not complied with. The application of these requirements or the adoption of new requirements could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and shareholder value.

## **Hydraulic Fracturing**

The Company does not currently engage in hydraulic fracturing. Hydraulic fracturing involves the injection of water, sand and small amounts of additives under pressure into rock formations to stimulate oil and natural gas production. Hydraulic fracturing is used to produce commercial quantities of oil and natural gas from reservoirs that were previously unproductive. Lobbies have formed both in support of and against hydraulic fracturing in New Zealand. In March 2012 the New Zealand Parliamentary Commission for the Environment announced an

independent investigation into the risks and benefits hydraulic fracturing. Preliminary results released in November 2012 indicated that environmental risks associated with hydraulic fracturing can be managed effectively, providing best practices are implemented and enforced through regulation. Further work has been proposed to investigate the regulatory framework that applies to hydraulic fracturing.

If the Company were to engage in hydraulic fracturing, any new laws, regulations or permitting requirements regarding hydraulic fracturing could lead to operational delays, increased operating costs or third party or governmental claims, and could increase the Company's cost of compliance and doing business, as well as delay the development of oil and natural gas resources from shale formations which are not commercial without the use of hydraulic fracturing. Restrictions on hydraulic fracturing could also reduce the amount of oil and natural gas that the Company is ultimately able to produce from its reserves.

### **Geological and Geographic Risks**

The costs of extracting and delivering any oil and natural gas to market and variations in the market price may render uneconomic any discovered deposit. Geological conditions are variable and unpredictable. Even if production is commenced from a well, the quantity of oil and natural gas produced inevitably will decline over time, and production may be adversely affected or may have to be terminated altogether if the Company encounters unforeseen geological conditions.

The Company is subject to uncertainties related to the proximity of any reserves that it may discover to pipelines and processing facilities. It expects that its operational costs will increase proportionally to the remoteness of, and any restrictions on access to, the properties on which any such reserves may be found.

The Company's development of oil and natural gas production facilities is subject to risks that may adversely impact on the commercial viability of the project as the realized revenues from the project may be less than anticipated and the capital and operating costs may be greater than anticipated. The risks to revenue include the development wells not producing predicted rates of oil and natural gas, decreases in the market prices of oil and natural gas, and increased storage and transportation costs.

### **Carbon Emissions Regime**

The Government of New Zealand is a signatory to the Kyoto protocol and, in order to meet the requirements of that protocol, the Government of New Zealand has passed the *Climate Change Response Act 2002* and the *Climate Change Response (Emissions Trading) Amendment Act 2008* that establishes the New Zealand Emissions Trading Scheme ("NZETS"). The Company or its subsidiaries will need to become a registered participant of the NZETS and be required to calculate and record emissions, file emissions returns and purchase and surrender emission units at the end of each calendar year once it holds any mining permit or licence. The application of these requirements or the adoption of new requirements could have a material adverse effect on the Company's business, results of operations, financial condition, cash flows and shareholder value.

### **Global Financial Crisis**

Recent market events and conditions, including disruptions in the international credit markets and other financial systems, and the American and European sovereign debt levels have, among other things, caused significant volatility in commodity prices. These events and conditions caused a loss of confidence in the broader global credit and financial markets and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. Although economic conditions have improved in the past couple years, recovery has been slow in various jurisdictions, including Europe and the United States, and



continues to be affected by high sovereign debt levels and unemployment, which continue to impact commodity prices and result in high volatility in stock markets.

Petroleum prices are expected to remain volatile for the near future as a result of market uncertainties regarding the supply and demand fundamentals for petroleum products due to the current state of the world's economics, actions taken by the Organization of the Petroleum Exporting Countries, and ongoing risks facing the North American and global economies.

### **Geopolitical Risks**

The marketability and price of oil and natural gas that may be acquired or discovered by the Company is and will continue to be affected by political events throughout the world that cause disruptions in the supply of oil. Conflicts, or conversely peaceful developments, arising in the Middle East, North Africa and other areas of the world have a significant impact on the price of oil and natural gas. Any particular event could result in a material decline in prices and therefore result in a reduction of the Company's net production revenue.

In addition, while New Zealand is generally regarded as a stable country, the Company's oil and natural gas properties, wells and facilities could be subject to a terrorist or other attack. If any of the Company's properties, wells or facilities are the subject of a terrorist or other attack, it may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. The Company continues to review its insurance coverage and may not currently have insurance to protect against all of these risks.

### **Competition**

The oil and natural gas industry is highly competitive. The Company encounters competition from other independent operators and from major oil companies in: acquiring oil and natural gas properties suitable for exploration, development and production; contracting for drilling equipment; securing trained personnel; obtaining transportation access to storage, refining and production infrastructure; and for capital to finance such activities. Many of these competitors have financial resources and personnel resources available to them that are substantially larger than that of the Company.

Certain of the Company's potential customers are themselves exploring for oil and natural gas, and the results of such exploration efforts could affect the Company's ability to sell or supply oil or gas to these customers in the future. The Company's ability to successfully bid on and acquire additional property rights, to discover reserves, to participate in drilling opportunities and to identify and enter into commercial arrangements with customers will be dependent upon developing and maintaining close working relationships with industry participants and joint venture parties and on the Company's ability to select and evaluate suitable properties and to consummate transactions in a highly competitive environment.

### **Availability of Drilling Equipment**

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment (typically leased from third parties) in the particular areas where such activities will be conducted. Demand for such limited equipment or access restrictions may affect the availability of such equipment to the Company and may delay exploration and development activities.

### **Gathering and Processing Facilities and Pipeline Systems**

The Company delivers its products through gathering, trucking, processing and pipeline systems, some of which it does not own. The amount of oil and natural gas that the Company can produce and sell is subject to the accessibility, availability, proximity and capacity of the gathering, trucking, processing and pipeline systems. Any lack of capacity, discontinuance or decrease in operations of these systems could prevent the Company from

realizing the full economic potential of production, or could result in a reduction of the price offered for the Company's product.

### **Reserve Estimates**

There are numerous uncertainties inherent in estimating quantities of oil, natural gas and natural gas liquids reserves and the future cash flows attributed to such reserves. The reserve and associated cash flow information set forth in this AIF and the documents incorporated by reference in this AIF are estimates only. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows therefrom are based upon a number of variable factors and assumptions, such as historical production from the properties, production rates, ultimate reserve recovery, timing and the amount of capital expenditures, marketability of oil and natural gas, royalty rates, the assumed effects of regulations by governmental agencies and future operating costs, all of which may vary materially from actual results.

Estimates of proved reserves that may be developed and produced in the future are often based upon volumetric calculations and upon analogy to similar types of reserves, rather than actual production history. Recovery factors and drainage areas were estimated by experience and analogy to similar producing pools, which estimates are generally less reliable than those based on actual production history. Subsequent evaluation of the same reserves based on production history and production practices will result in variations in the estimated reserves, which may be material.

In accordance with applicable securities laws, the Company's independent reserves evaluator has used forecast prices and costs in estimating the reserves and future net cash flows as summarized herein. Actual net cash flows will be affected by other factors, such as actual production levels, supply and demand for oil and natural gas, curtailments or increases in consumption by oil and natural gas purchasers, changes in governmental regulation or taxation and the impact of inflation on costs.

Actual production and cash flows derived from the Company's oil and natural gas reserves will vary from the estimates contained in the reserve evaluation, and such variations could be material. The reserve evaluation is based in part on the assumed success of activities the Company intends to undertake in future years. The reserves and estimated cash flows to be derived therefrom contained in the reserve evaluation will be reduced to the extent that such activities do not achieve the level of success assumed in the reserve evaluation. The reserve evaluation is effective as of December 31, 2012, and has not been updated and thus does not reflect changes to the Company's reserves since that date.

### **Resource Estimates**

Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Prospective resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. Undiscovered resources means those quantities of oil and gas estimated on a given date to be contained in accumulations yet to be discovered. The resources reported in the Company's public documents are estimates only and there is no certainty that any portion of the reported resources will be discovered and that, if discovered, it will be economically viable or technically feasible to produce.

### **Failure to Complete Acquisition of Origin Assets**

Closing of the acquisition of assets from Origin is contingent on a number of conditions, including receiving government approvals and the Company obtaining financing sufficient to pay the purchase price to Origin. There can be no certainty, nor can the Company provide any assurance, that these conditions will be satisfied, or

the timing of such satisfaction. If the acquisition is not completed for any reason, the market price of the Company's common shares may be adversely affected.

### **Uncertainty in Operating Origin Assets**

If closing of the acquisition of assets from Origin occurs, the Company will assume ownership of a suite of existing assets, licences and consents. Although the Company has performed due diligence, there is no certainty about the condition of the assets, mining licences and consents, the future performance of the assets and the remaining prospectively of those resources covered by the mining licences.

### **Title to Properties and Prescribed Permit, Resource Consent and/or Licence Terms and Conditions**

In all cases, the terms and conditions of the permit, resource consent and/or licence granting the Company, or the party from which the Company acquired the right to explore for, and develop, oil and natural gas properties, prescribe a work program and conditions, and the date or dates before which such work program must be completed. The Company believes that it is in compliance with all such permits, resource consents and/or licences. However, varying circumstances, including manpower, equipment availability, and other circumstances beyond the Company's control or influence may result in the failure to satisfy the terms and conditions of a permit, resource consent and/or licence and result in the complete loss of the interest in the permit or licence without compensation or the imposition of fines, penalties or further conditions. Such terms and conditions may be renegotiated with applicable regulatory authorities, but there is no assurance that if a term or condition of a permit, resource consent and/or licence that is required to be satisfied has not been met, that such term or condition will be successfully renegotiated with the applicable authority. Likewise, there is no assurance that the Company will be successful in obtaining permits, resource consents and/or licences required to undertake oil and natural gas operations on the properties. There is also no assurance that the Company will be successful in satisfying certain outstanding conditions in respect of the transfer or grant of petroleum exploration permits for the Company's properties or future properties, including obtaining the consent or approval of NZPAM. If the Company acquires new assets or permits or licences, New Zealand law may impose certain liability for past breaches related to such assets or permits or licences. Although the Company endeavours to determine whether there are any historical breaches related to any acquired interests, there is a risk that the Company could be responsible for breaches committed or liabilities incurred, by previous owners.

### **No Title Insurance**

The possibility exists that the right to explore one or more properties may be lost due to a failure by the Company to comply with the terms of the relevant permit. The Company does not maintain title insurance and there is no guarantee of title to any of the properties. The properties may be subject to prior unregistered agreements or transfers or native land claims, and title may be affected by undetected defects. The Company has investigated the rights to explore the various oil and natural gas properties it holds or proposes to participate in, and the Company believes that those rights are in good standing. In addition, many of the Company's properties are located on private property and may be subject to delays and/or disputes with landowners in certain circumstances. Such delays/disputes may affect the Company's ability to explore for, produce or develop its oil and natural gas properties.

### **Possible Lack of or Inadequacy of Insurance**

The Company's involvement in the exploration for and development of oil and natural gas properties may result in the Company becoming subject to liability for pollution, blow outs, leaks of sour natural gas, property damage, personal injury or other hazards. Although the Company maintains insurance against certain public liability, operational and environmental risks, there is no assurance that an event causing loss will be covered by such insurance, that such insurance will continue to be available to the Company, or that the benefits of such insurance will be adequate to cover any liability of the Company. In addition, the Company may elect not to

obtain insurance to deal with all risks due to the high premiums associated with such insurance, or other reasons. The payment of any uninsured liabilities would reduce the funds available to the Company. The occurrence of a significant event that the Company is not fully insured against, or the insolvency of the insurer of such event, may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### **Effect of Different Currencies**

The Company holds cash reserves in Canadian, New Zealand and U.S. dollars. The Company has also drawn amounts against a U.S. dollar-denominated operating line of credit. The majority of costs incurred on its New Zealand operations are in New Zealand dollars. The Company does not in the normal course hedge its exposure to foreign currency exchange rate changes, however, the Company may choose to selectively hedge exposure to foreign currency exchange rate risk in the future.

The Company manages some of its short-term exposure to foreign exchange risk by transferring portions of its cash on hand from one currency to another in a timely manner and holding appropriate balances of foreign currencies in light of projected expenditure in the near term. Considering that the Company historically raised funds in Canadian and U.S. dollars, a decrease in the value of the New Zealand currency against the value of the Canadian or U.S. dollar may provide greater investing latitude to the New Zealand subsidiaries who incur the majority of their expenditure in New Zealand dollars. An increase in value of the New Zealand dollar relative to the Canadian or U.S. dollar would, in turn, reduce the New Zealand dollar equivalent value of assets denominated in Canadian and U.S. dollars.

### **Foreign Jurisdiction Risks and Local Laws**

The Company's oil and natural gas assets are located in New Zealand. As such, the Company is subject to political, economic, and other uncertainties not within its control, including, but not limited to: the uncertainty of negotiating with foreign governments; adverse legislation in New Zealand; renegotiation or nullification of existing concessions; claims of Maori as the native peoples of New Zealand; adverse determinations or rulings by governmental authorities; changes in energy policies or in the personnel administering them; disputes between various levels of authorities; arbitrating and enforcing claims against entities that may claim sovereignty; authorities claiming jurisdiction; potential implementation of exchange controls and royalty increases; and other risks arising out of foreign governmental sovereignty over the areas in which the Company's operations are conducted. The majority of the Company's employees and consultants are located in New Zealand. New Zealand labour and employment laws may differ in material respects from Canadian labour and employment laws, including with respect to unions and the ability of workers to require companies to engage with their negotiating agent.

There is no assurance that governmental laws and regulation in New Zealand will not change, including regulations relating to prices, royalties, allowable production, noise and environmental matters, import and export of oil and natural gas and protection of water resources and agricultural lands. The Company's oil and natural gas interests in New Zealand are subject to laws and regulations that relate directly and indirectly to the Company's operations, including title to the oil and natural gas interests, production, marketing and sale of oil and natural gas, taxation, environmental matters, restriction on the withdrawal of capital from a country and other factors. There is no assurance that the laws relating to the ownership of oil and natural gas interests and the operation of the Company's business in New Zealand will not change in a manner that may materially and adversely affect the Company's business.

The Company's international operations and investments may also be adversely affected by laws and policies of Canada affecting foreign trade, taxation and investment. The Company may not receive the consents required to undertake certain corporate restructuring, which may result in a less efficient corporate structure for tax purposes. In the event of a dispute arising in connection with its foreign operations, the Company may be subject

to the exclusive jurisdiction of foreign courts or may not be successful in subjecting foreign persons to the jurisdiction of courts in Canada or enforcing Canadian judgments in foreign jurisdictions. Consequently, the Company's foreign activities could be substantially affected by factors beyond the Company's control, any of which could have a material adverse effect on the Company.

### **Failure to Realize Anticipated Benefits of Acquisitions and Dispositions**

The Company makes acquisitions and dispositions of businesses and assets in the ordinary course of business. Achieving the benefits of acquisitions depends in part on successfully consolidating functions and integrating operations and procedures in a timely and efficient manner as well as the Company's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses and operations with those of the Company. The integration of acquired businesses may require substantial management effort, time and resources and may divert management's focus from other strategic opportunities and operational matters. Management of the Company continually assesses the value and contribution of services provided and assets required to provide such services. In this regard, non-core assets may be periodically disposed of, so that the Company can focus its efforts and resources more efficiently. Depending on the state of the market for such non-core assets, certain non-core assets of the Company, if disposed of, could be expected to realize less than their carrying value on the financial statements of the Company.

### **Value of Properties**

The amounts attributed to the Company's oil and natural gas properties in its financial statements represent acquisition and exploration expenditures to the date of such financial statements, and should not be taken to in any way reflect realizable value.

### **Operators and Key Employees**

The success of the Company largely depends upon the performance of its key employees and on the advice and project management skills of various geologists, geophysicists and engineers retained by the Company from time to time. In particular, the Company acquired several key employees and technical staff through the IRBA Agreement. Although there are other personnel available in the sector who could replace the Company personnel, there is likely to be some difficulty in finding immediate replacements of suitable caliber.

### **Management of Growth**

The Company may be subject to growth-related risks including capacity constraints and pressure on its internal systems and controls. The ability of the Company to manage growth effectively will require it to continue to implement and improve its operational and financial systems and to expand, train and manage its employee base. The inability of the Company to deal with this growth may have a material adverse effect on the Company's business, financial condition, results of operations and prospects.

### **Funding Requirements**

Oil exploration involves a high degree of technical and commercial risk and is characterized by a continuous need for capital. The Company faces competition from other companies for oil and natural gas properties and investor dollars. The development of the Company's exploration properties may depend upon the Company's ability to obtain financing. The Company is considering a number of options to increase its financial capacity (including taking steps with a view to increasing cash flow from oil production, credit facilities, joint arrangements, commercial arrangements or other financing alternatives) in order to meet all required and planned capital expenditures, including completion of the acquisition of assets from Origin.

There is no assurance that market conditions will permit the Company to raise the necessary funds on acceptable terms, or at all, or permit the Company to be able to renegotiate obligations.

An inability to obtain the necessary funds may result in the Company being unable to complete the acquisition of assets from Origin, or to meet the minimum work requirements under its PEPs, which may result in the surrender of such PEPs. The failure to acquire the assets from Origin and any surrender of PEPs could have a material adverse effect on the business and the operations of the Company and on the market price of the Company's common shares.

### **Issuance of Debt**

The Company currently has no long-term debt but may finance with long-term debt in the future. The Company's constating documents do not limit the amount of indebtedness that the Company may incur.

### **Dilution to Common Shares**

Further equity issuances may substantially dilute the interests of the Company's shareholders and may have an adverse effect on the market price of the common shares. The Company may require additional funds to fund its exploration and development programs or acquisitions. If the Company issues additional equity securities, such issuances may substantially dilute the interests of shareholders. Issuances of substantial amounts of the Company's securities, or the availability of such securities for sale, could adversely affect the prevailing market prices for the Company's securities. A decline in the market prices of the Company's securities could impair its ability to raise additional capital through the sale of securities, should it desire to do so.

### **Dividend Policy**

The Company has not paid any dividends on its common shares since incorporation. Any decision to pay dividends on the common shares in the future will be made by the Board of Directors on the basis of the earnings, financial requirements and other conditions existing at such time. Until the Company pays dividends, which it may never do, holders of common shares will not be able to receive a return on their common shares unless they sell them.

### **Ability to Enforce Judgements**

The Company is incorporated under the laws of British Columbia, Canada. Certain of the directors and officers of the Company reside outside of Canada. Although certain directors and officers have appointed the Company at its registered and records office of Suite 1200 - 750 West Pender Street, Vancouver, British Columbia, V6C 2T8 as their agent for service of process in Canada, it may not be possible for investors to enforce judgements obtained in Canada against those directors and officers.

In addition, the Company's directors and officers are resident outside the U.S. and the Company's assets are located outside the U.S. As a result, it may be difficult for U.S. shareholders to effect service of process within the U.S. upon the Company, its directors and officers, or to realize in the U.S. upon judgements of courts of the U.S. predicated upon civil liability of the Company and the directors or officers under U.S. federal or state securities laws.

### **Conflicts of Interest**

Some of the directors and officers are engaged and will continue to be engaged in the search for additional business opportunities on behalf of other corporations, and situations may arise where these directors and officers will be in direct competition with the Company. Conflicts, if any, will be dealt with in accordance with

the relevant provisions of the *Business Corporations Act* (British Columbia). See “Directors and Officers – Conflicts of Interest”.

### **ADDITIONAL INFORMATION**

Additional information relating to the Company may be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities and securities authorized for issuance under equity compensation plans, if applicable, is contained in the Company’s information circular dated May 17, 2013. Additional financial information is provided in the Company’s audited financial statements and Management’s Discussion and Analysis for the year ended December 31, 2012.

## Schedule A

### Charter of the Audit Committee of the Board of Directors of the Company

#### *Mandate*

The primary function of the Audit Committee (“Committee”) is to assist the Board of Directors in fulfilling its financial oversight responsibilities by reviewing the following: (a) the financial reports and other financial information provided by the Corporation to regulatory authorities and shareholders; (b) the Corporation’s systems of internal controls regarding finance and accounting; and (c) the Corporation’s auditing, accounting and financial reporting processes. Consistent with this function, the Committee will encourage continuous improvement of, and should foster adherence to, the Corporation’s policies, procedures and practices at all levels. The Committee’s primary duties and responsibilities are to (i) serve as an independent and objective party to monitor the Corporation’s financial reporting and internal control system and review the Corporation’s financial statements; (ii) review and appraise the performance of the Corporation’s external auditors; (iii) provide an open avenue of communication among the Corporation’s auditors, financial and senior management and the Board of Directors; and (iv) ensure the highest standards of business conduct and ethics.

#### *Composition*

The Committee shall comprise three directors as determined by the Board of Directors, the majority of whom shall be free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Committee.

At least one member of the Committee shall have accounting or related financial management expertise. All members of the Committee that are not financially literate will work towards becoming financially literate to obtain a working familiarity with basic finance and accounting practices. For the purposes of the Corporation’s Charter, the definition of “financially literate” is the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can presumably be expected to be raised by the Corporation’s financial statements.

The members of the Committee shall be elected by the Board of Directors at its first meeting following the annual shareholders’ meeting. Unless a Chair is elected by the full Board of Directors, the members of the Committee may designate a Chair by a majority vote of the full Committee membership.

#### *Meetings*

The Committee shall meet at least quarterly, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee will meet at least annually with the Chief Financial Officer and the external auditors in separate sessions.

#### *Responsibilities and Duties*

To fulfill its responsibilities and duties, the Committee shall:

##### Documents/Reports Review

- (a) Review and update this Charter annually.
- (b) Review the Corporation’s financial statements, Management’s Discussion and Analysis, any annual and interim earning statements and press releases before the Corporation publicly discloses this information and any reports or other financial information (including quarterly financial statements), which are submitted to any governmental body, or to the public, including any certification, report, opinion or review rendered by the external auditors.



External Auditors

- (a) Review annually the performance of the external auditors who shall be ultimately accountable to the Board of Directors and the Committee as representatives of the shareholders of the Corporation.
- (b) Obtain annually a formal written statement of external auditors setting forth all relationships between the external auditors and the Corporation.
- (c) Review and discuss with the external auditors any disclosed relationships or services that may impact the objectivity and independence of the external auditors.
- (d) Take or recommend that the full Board of Directors take appropriate action to oversee the independence of the external auditors.
- (e) Recommend to the Board of Directors the selection and, where applicable, the replacement of the external auditors nominated annually for shareholder approval.
- (f) At each meeting, consult with the external auditors, without the presence of management, about the quality of the Corporation's accounting principles, internal controls and the completeness and accuracy of the Corporation's financial statements.
- (g) Review and approve the Corporation's hiring policies regarding partners, employees and former partners and employees of the present and former external auditors of the Corporation.
- (h) Review with management and the external auditors the audit plan for the year-end financial statements and intended template for such statements.
- (i) Review and pre-approve all audit and audit-related services and the fees and other compensation related thereto, and any non-audit services, provided by the Corporation's external auditors. The pre-approval requirement is waived with respect to the provision of non-audit services if:
  - i. the aggregate amount of all such non-audit services provided to the Corporation constitutes not more than 5% of the total amount of revenues paid by the Corporation to its external auditors during the fiscal year in which the non-audit services are provided;
  - ii. such services were not recognized by the Corporation at the time of the engagement to be non-audit services; and
  - iii. such services are promptly brought to the attention of the Committee by the Corporation and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board of Directors to whom authority to grant such approvals has been delegated by the Committee,

provided the pre-approval of the non-audit services is presented to the Committee's first scheduled meeting following such approval such authority may be delegated by the Committee to one or more independent members of the Committee.

Financial Reporting Processes

- (a) In consultation with the external auditors, review with management the integrity of the Corporation's financial reporting process, both internal and external.
- (b) Consider the external auditor's judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.
- (c) Consider and approve, if appropriate, changes to the Corporation's auditing and accounting principles and practices as suggested by the external auditors and management.
- (d) Review significant judgments made by management in the preparation of the financial statements and the view of the external auditors as to appropriateness of such judgments.
- (e) Following completion of the annual audit, review separately with management and the external auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.
- (f) Review any significant disagreement among management and the external auditors in connection with the preparation of the financial statements.
- (g) Review with the external auditors and management the extent to which changes and improvements in financial or accounting practices have been implemented.
- (h) Review certification process.
- (i) Establish a procedure for the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

Other

- (a) Review any related party transactions.
- (b) Review reports from persons regarding any questionable accounting, internal accounting controls or auditing matters (“Concerns”) relating to the Corporation such that:
  - i. an individual may confidentially and anonymously submit their Concerns to the Chairman of the Committee in writing, by telephone, or by e-mail;
  - ii. the Committee reviews as soon as possible all Concerns and addresses same as they deem necessary; and
  - iii. the Committee retains all records relating to any Concerns reported by an individual for a period the Committee judges to be appropriate,

and provided that all of the foregoing shall be done in such a manner that the individual submitting such Concerns shall have no fear of adverse consequences.