NEW ZEALAND ENERGY CORP.

New Zealand Energy Corp.

(formerly 0894134 B.C. Ltd.)

Second Quarter 2011
Management's Discussion and Analysis

June 30, 2011

(Canadian Funds)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of New Zealand Energy Corp. ("NZEC" or the "Corporation") for the year ended December 31, 2010, and the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2011, as publicly filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

NZEC reports in accordance with International Financial Reporting Standards ("IFRS") and the following disclosure, and associated condensed consolidated interim financial statements, are presented in accordance with IFRS. This MD&A is prepared as of August 29, 2011 and includes certain statements that may be deemed "forward-looking statements". All amounts are in Canadian dollars unless otherwise noted.

NZEC's shares are listed on the TSX Venture Exchange under the symbol "NZ". Additional information related to the Corporation is available on SEDAR.

DESCRIPTION OF BUSINESS

NZEC, through its subsidiaries (collectively "NZEC" or "the Corporation") is engaged in the exploration, acquisition and development of oil and natural gas resources in New Zealand's North Island. The Corporation's major assets (the "Properties") consist of the following Petroleum Exploration Permits ("PEPs"): a 100% interest in PEP 51150 (the "Eltham Permit") and a 50% interest in PEP 51151 (the "Alton Permit") (pending completion of the acquisition under a permit acquisition agreement), which are located within the Taranaki Basin; and a 100% interest in PEP 52694 (the "Castlepoint Permit"), a 100% interest in PEP 38342 (the "Ranui Permit") (pending completion of the acquisition under a permit acquisition agreement) and a 100% interest in PEP 52976 (the "East Cape Permit") (pending the grant of that permit by New Zealand's Minister of Energy), which are located within the East Coast Basin.

New Zealand offers a unique opportunity to develop hydrocarbon resources in multiple underexplored onshore and offshore sedimentary basins. Despite its highly prospective geology and numerous oil and gas seeps, New Zealand remains highly underexplored. All of the current production is derived from the Taranaki Basin in conventional targets using vertical wells and little if any hydraulic fracturing or other enhanced technology. All the wells drilled in the past 60 years are equivalent in number to approximately two weeks of vigorous drilling activity in western Canada. With its stable geopolitical setting and supportive fiscal regime, favourable government policies and tremendous resource potential, New Zealand offers an exciting oil and gas development opportunity with the backdrop of strong crude oil prices.

FINANCIAL SNAPSHOT

	For the six months ended June 30, 2011	For the financial period ended December 31, 2010
Revenue	-	-
Net loss and comprehensive loss	$ (2,652,278)	$ (10,338,136)
Interest income	26,676	-
Loss per share – basic and diluted	(0.04)	(0.24)
Current assets	5,630,748	6,229,650
Total assets	10,683,239	6,301,322
Total liabilities	416,153	371,958
Shareholders' equity	10,267,086	5,929,364

RECENT DEVELOPMENTS

- On July 7, 2011, NZEC and Discovery Geo Corporation ("Discovery Geo") entered into an indemnity agreement pursuant to which Discovery Geo agreed to indemnify NZEC against any claims for existing royalties or the right to receive future royalties in excess of 3% on the Ranui Permit (exclusive of the 5% royalty payable to the Crown).

- On July 14, 2011, NZEC, AGL Upstream Gas (MOS) Pty Limited ("AGL") and L&M Energy Limited ("L&M") entered into an agreement pursuant to which AGL assigned its 50% interest in the Alton Permit joint venture to NZEC. In addition, pursuant to this agreement, L&M waived its pre-emptive rights in respect of the Alton Permit and consented to the sale of AGL's interest in the Alton Permit. On July 26, 2011, the Corporation announced the completion of drilling of the Talon-1 exploration well on the Alton Permit. Funding 100% of the drilling costs (estimated at $2,400,000) was a condition of the Corporation's acquisition of its 50% working interest in the permit and the Corporation has assumed operatorship of the permit. The Corporation has no further earning obligations pursuant to the assignment from AGL.

- On August 3, 2011 (the "Listing Date"), the Corporation completed its initial public offering of 20,000,000 common shares at $1.00 per common share (the "Offering Price") for gross proceeds of $20,000,000 (the "Offering") and commenced public trading on the TSX Venture Exchange (the "Listing"). Under the symbol "NZ", the Offering was completed through a syndicate of agents (the "Agents"). The Agents were granted an over-allotment option to subscribe for an additional 3,000,000 common shares, on the same terms, at any time up to 30 days after the Listing Date. The Agents received a 6% commission on the proceeds of the Offering, which was paid in cash and common shares. Warrants were also issued totalling 3% of the common shares issued pursuant to the Offering, and are exercisable at $1.00 for a period of 18 months from the Listing Date.

- On August 3, 2011, the Corporation granted stock options to directors, officers and consultants to purchase an aggregate 4,828,000 common shares at the Offering price for a period of five years from the Listing Date. These stock options will vest over a 24-month period, with 25% of the stock options vesting every six months after the Listing Date.

- On August 3, 2011, NZEC paid US$500,000 to Discovery Geo as partial payment of the purchase price for the Ranui Permit. On August 24, 2011, the Corporation paid the remaining US$500,000 and initiated the issuance of 1,000,000 common shares for final consideration to of the Ranui Assignment Agreement.

- On August 24, 2011, the Corporation announced that the Copper Moki-1 well was production tested earlier in August over a 48-hour period and flowed 41.8 API[1] oil at the consistent rate of 1,100 barrel per day along with 855 mcf[2] per day of natural gas. The well will be placed on an extended production test to determine the reservoir size and flow conditions and NZEC has entered into a contract to sell its test volumes of oil at a premium to the Brent reference price[3].

PROPERTY REVIEW

Within the Taranaki Basin, the following PEPs have been, or are in the process of being, acquired:

1) On March 3, 2011, New Zealand's Minister of Energy granted an assignment of the Eltham Permit to NZEC. The Eltham Permit covers approximately 92,467 acres (374 km^2) of which approximately 31,877 acres (129 km^2) are offshore in shallow water.

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[1] American Petroleum Institute
[2] Thousand cubic feet
[3] The reference against which two thirds of the world's internationally traded crude oil supplies are priced.

2) On June 24, 2011, NZEC entered into the Alton Agreement with AGL pursuant to which the Corporation will acquire a 50% interest in the Alton Permit and associated joint venture with L&M, which owns the other 50% of the permit. The Alton Permit is adjacent to the Eltham Permit and covers approximately 119,203 acres (482 km^2).

Within the East Coast Basin, located on the east coast of New Zealand's North Island, the following PEPs have been, or are in the process of being, acquired:

1) On November 24, 2010, the Minister of Energy granted the Castlepoint Permit to NZEC. The Castlepoint Permit covers approximately 551,042 onshore acres (2,230 km^2).

2) On February 22, 2011, NZEC entered into a permit acquisition agreement with Discovery Geo, pursuant to which Discovery Geo has agreed to assign its 100% interest in the Ranui Permit to NZEC upon completion of certain conditions. The Ranui Permit is adjacent to the Castlepoint Permit and covers approximately 223,087 acres (903 km^2). The Corporation must undertake certain geophysical and geochemical studies prior to re-entering a suspended well on the property.

3) On September 3, 2010, NZEC applied to the Minister of Energy for the East Cape Permit. The application is uncontested and the Corporation expects the East Cape Permit to be granted to NZEC upon completion of Crown Mineral's review of the application. The East Cape Permit covers approximately 1,067,495 onshore acres (4,320 km^2) on the northeast tip of the North Island.

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2011

Taranaki Basin

During the six-month period ended June 30, 2011, the Corporation incurred $3,413,195 in capitalized exploration and development costs relating to the Eltham Permit. Of the costs incurred during the period, $110,131 related to asset retirement costs, $353,172 was recorded for consulting services and $2,716,191 for well development. As a result of funding and drilling the Copper Moki-1 discovery well, reprocessing 438 km of 2D seismic data and carrying out a number of other technical studies to the satisfaction of the Ministry of Energy, the Corporation earned a 100% interest in the Eltham Permit which was assigned to NZEC on March 3, 2011. Total expenditures incurred as of June 30, 2011 relating to the Eltham Permit amounted to $3,421,462.

As of June 30, 2011, the Corporation paid $1,104,952 as deposit toward the acquisition of the Alton Permit pursuant to the Alton Agreement.

East Coast Basin

During the six-month period ended June 30, 2011, the Corporation incurred $46,624 in capitalized exploration costs on the Castlepoint Permit. Total expenditures incurred as of June 30, 2011 relating to the Castlepoint Permit amounted to $115,111.

In February 2011, the Corporation entered into the Ranui Assignment Agreement with Discovery Geo, pursuant to which Discovery Geo agreed to assign to NZEC its 100% interest in the Ranui Permit. Upon satisfaction of the conditions of assignment, NZEC will pay Discovery Geo US$1,000,000 and will issue 1,000,000 common shares to Discovery Geo. As of June 30, 2011, the Corporation incurred $16,533 in capitalized acquisition costs relating to the Ranui Permit. On August 3, 2011, NZEC paid US$500,000 to Discovery Geo as partial payment of the purchase price for the Ranui Permit. On August 24, 2011, the Corporation paid the remaining US$500,000 and initiated the issuance of 1,000,000 common shares for final consideration to of the Ranui Assignment Agreement.

During the six-month period ended June 30, 2011, the Corporation did not capitalize any exploration or acquisition costs relating to the East Cape Permit.

PERMIT EXPENDITURE REQUIREMENTS

The Corporation participates in oil and gas exploration and development and is contractually committed under various agreements to complete certain exploration activities. The Corporation's management estimates that the total commitments for the balance of 2011 under its current permits held at June 30, 2011 are as follows:

Oil and Gas Property	**Working Interest (%)**	**Work Commitment or Obligation to December 31, 2011**
Eltham Permit	100	$ 3,067,637
Castlepoint Permit	100	321,331
Total		$ 3,664,000

The Corporation may choose to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out its interest in permits, where practical.

The Corporation's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Corporation committing to the next stage of the permit term where additional expenditure would be required.

The Corporation estimates that the following expenditures will be required in the five-year period commencing December 31, 2010 to complete the minimum work programs required in relation to the Eltham Permit and Castlepoint Permits, as well as the Alton Permit (assuming the assignment of this 50% interest in this PEP is completed), Ranui Permit (assuming the assignment of this PEP to the Corporation is completed) and East Cape Permit (assuming that this PEP is granted to the Corporation):

Properties	**2011 ($)**	**2012 ($)**	**2013 ($)**	**2014 ($)**	**2015 ($)**	**Total ($)**
Eltham Permit(1)	3,300,000	2,475,000	Nil	N/A	N/A	5,775,000
Alton Permit(2)	3,500,000	2,000,000	Nil	N/A	N/A	5,500,000
Castlepoint Permit(3)	364,000	1,757,000	3,089,000	7,703,000	7,703,000	20,616,000
Ranui Permit(4)	2,500,000(5)	675,000(6)	3,750,000(7)	100,000(8)	N/A	7,025,000
East Cape Permit(9)	290,000	987,000	1,471,000	3,677,000	3,677,000	10,102,000
	9,954,000	7,894,000	8,310,000	11,480,000	11,380,000	49,018,000

The expenditures in the table above are management's estimates regarding the minimum work program under the permits. Maintaining the permits in good standing during the permit term is based on the fulfillment of the minimum work program and is not based on a specific expenditure level.

Notes:

(1) The Eltham Permit was granted September 23, 2008 for a five-year term expiring September 22, 2013. The minimum work program for each year of the Eltham Permit must be completed by September 22 of each year.

(2) The Alton Permit was granted September 23, 2008 for a five-year term expiring September 22, 2013. The minimum work program for each year of the Alton Permit must be completed by September 22 of each year.

(3) The Castlepoint Permit was granted November 24, 2010 for a five-year term expiring November 24, 2015. The minimum work program for each year of the Castlepoint Permit must be completed by November 24 of each year.

(4) The Ranui Permit was granted June 28, 2004, and on December 18, 2009 was extended to June 27, 2014.
(5) This minimum work program must be completed by October 27, 2011. This amount includes $1,000,000 ($500,000 paid) and 1,000,000 common shares of the Corporation owed to Discovery Geo to complete the transfer of the Ranui Permit.
(6) This minimum work program must be completed by June 27, 2012.
(7) This minimum work program must be completed by August 27, 2013.
(8) This minimum work program must be completed by June 27, 2014, the expiry of the term of the Ranui Permit.
(9) The East Cape Permit has not yet been granted. The estimates above reflect expenditures required to complete the anticipated minimum work program for each year of the permit.

The amounts above represent the minimum expenditure requirements for each year necessary to complete the minimum work program and maintain each of the Permits; otherwise, the relevant PEP must be surrendered.

OUTLOOK

Use of Proceeds

On August 3, 2011, NZEC closed the Offering for gross proceeds of $20,000,000. NZEC's intended use of the net proceeds over the next 12 to 15 months is outlined below:

Property	Operation	Anticipated use of proceeds in the Prospectus	Current anticipated use of proceeds
Taranaki Basin:			
Eltham Permit	• Drill and tie in 1 well targeting Urenui / Mt. Messenger Formation • Complete and tie in Copper Moki-1 Well • Reprocess 3D seismic survey	$6,600,000	$6,600,000
Alton Permit	• Drill and complete Talon-1 Well • Commence drilling of second exploration well	$6,500,000	$6,500,000
East Coast Basin:			
Castlepoint Permit	• Drill 2 core wells • Technical studies • Reprocess 2D seismic data	$625,000	$625,000
Ranui Permit	• Re-enter and evaluate Ranui-1 Well • Technical studies, seismic reprocessing and core sampling	$3,175,000	$3,175,000
East Cape Permit *	• Technical studies and surveys • Evaluate and analyze data	$290,000	$290,000
Working capital as at June 30, 2011		$206,000	$442,904
Other:			
Costs of the Offering (Paid) (including legal, regulatory, audit and printing expenses)		$400,000	$431,700
Agents' commission (Paid)		$730,000	$511,395
Reserves for acquisition opportunities		$2,500,000	$2,500,000
		$25,284,000	**$25,333,999**

* Budget contingent on receipt of permit.

As at the date of the filing of the MD&A, management does not anticipate any significant changes to its current anticipated use of proceeds.

RESULTS OF OPERATIONS FOR THREE-MONTH PERIOD ENDED JUNE 30, 2011

Period Expenses

During the three-month period ended June 30, 2011, the Corporation incurred total expenses of $1,109,045. Management fees, professional and consultant fees recorded during the period were significant as the Corporation continued its development activities and as a result of the Offering. Management fees were in line with the consulting agreements entered into with J. Proust & Associates Ltd. ("JPA") and Wexford Energy Ltd ("Wexford") as detailed in the related party transactions recorded during the period. Travel and promotion materially related to travel costs associated with marketing of the Offering. On February 21, 2011, the Corporation entered into an asset purchase agreement ("IRBA Agreement") with Ian R. Brown Associates Limited ("IRBA") pursuant to which the Corporation acquired certain assets and agreed to offer employment to certain IRBA employee. As a result of the IRBA Agreement, the Corporation began incurring office and general costs for a larger office in Wellington, along with the additional salary and wages of its in-country staff. The remaining general and administrative costs were reflective of the Corporation's current stage of development.

Interest Income

The Corporation earned $19,222 of interest income on its excess cash and cash equivalent balances held during the three-month period ended June 30, 2011.

Net Loss and Funds from Operations

The Corporation generated net loss of $1,089,823 ($0.01 per share) for the period ended June 30, 2011.

RESULTS OF OPERATIONS FOR SIX-MONTH PERIOD ENDED JUNE 30, 2011

Period Expenses

During the six-month period ended June 30, 2011, the Corporation incurred total expenses of $2,947,189. A one-off non-cash stock-based compensation adjustment of $1,000,000 was recognized during the period to reflect the issuance of 2,000,000 common shares pursuant to the IRBA Agreement. Professional and consultant fees recorded during the period were significant as the Corporation continued its development activities and as a result of the ongoing Offering and Listing process. Management fees were in line with the consulting agreements entered into with JPA and Wexford as detailed in the related party transactions recorded during the period. Travel and promotion included additional costs associated with a senior management and brokers' trip to New Zealand in February and traveling costs associated with marketing the Offering. On March 1, 2011, as a result of IRBA Agreement, the Corporation began incurring office and general costs for a larger office in Wellington, along with the additional salary and wages of its in-country staff. The remaining general and administrative costs were reflective of the Corporation's current stage of development.

Interest Income

The Corporation earned $26,676 of interest income on its excess cash and cash equivalent balances held during the six-month period ended June 30, 2011.

Net Loss and Funds from Operations

The Corporation generated net loss of $2,920,513 ($0.04 per share) for the period ended June 30, 2011.

SUMMARY OF QUARTERLY RESULTS

	June 30, 2011	March 31, 2011	From incorporation on October 29, 2010 to December 31, 2010
Total assets	$ 10,683,239	$ 11,491,806	$ 6,301,322
Resource properties	4,641,525	3,161,561	60,222
Working capital	5,333,999	7,596,329	5,857,692
Accumulated deficit	(13,258,649)	(12,168,826)	(10,338,136)
Total comprehensive loss	(773,524)	(1,878,754)	(10,338,136)
Basic and diluted loss per share	(0.01)	(0.03)	(0.24)

CAPITAL SPENDING

For the six-month period ended June 30, 2011 the Corporation incurred $4,581,303 in expenditures on the Properties. This amount included $110,131 of asset retirement costs relating to the Eltham Permit due to the drilling of the Copper Moki-1 well, along with $353,172 on consulting expenditures and $2,716,191 for well development. The Corporation incurred acquisition costs of $1,104,952 toward acquisition of the Alton Permit Agreement and incurred acquisition costs of $16,533 related to acquisition of the Ranui Permit. The balance of the capital expenditures incurred during the period related to geological services incurred on the Castlepoint Permit.

LIQUIDITY AND CAPITAL RESOURCES

The consolidated financial statements of the Corporation for the period ended June 30, 2011 have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. At June 30, 2011 the Corporation had working capital of $5,333,999.

As at June 30, 2011 the Corporation had earned a 100% interest in the Eltham Permit, acquired the Castlepoint Permit, made application for the East Cape Permit, entered into a permit acquisition agreement to obtain a 100% interest in the Ranui Permit and entered into a second permit acquisition agreement to obtain a 50% working interest in the Alton Permit. These PEP acquisition activities have been financed through a series of private placement offerings. Management believes the Corporation has sufficient capital to discharge the Corporation's liabilities and commitments in the normal course of business and fund ongoing operations and planned capital expenditures over the next 12 to 15 months.

Since the commencement of operations on April 19, 2010, the Corporation has incurred general and administrative expenses relating to the legal and auditing costs associated with the formation of the Corporation, completion of private placements, acquisitions, opening offices in Vancouver, Canada and Wellington, New Zealand, hiring of personnel, and the completion of the Offering and the Listing. On February 21, 2011, the Corporation entered into the IRBA Agreement with IRBA through which the Corporation acquired certain assets and agreed to offer employment to certain IRBA employees. As a result of the IRBA Agreement, the Corporation began incurring office and general costs for a larger office in Wellington, along with the additional salary and wages of its in-country staff. The Corporation's estimated general and administrative costs over the next 12 months are expected to be approximately $284,000 per month.

The Corporation's policy is to maintain an adequate capital base for the objective of maintaining financial flexibility and investor confidence and to sustain the future development of the business.

The Corporation's capital includes share capital and the cumulative deficit. The Corporation's objective when managing capital is to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Corporation manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Corporation's objective is met by maintaining adequate equity and working capital to meet future capital expenditure requirements.

The Corporation's oil and natural gas interests are in the exploration and evaluation stage and the Corporation has not yet determined whether its oil and natural gas properties contain reserves that are economically recoverable. Accordingly, the recoverability of amounts recorded as oil and natural gas resources is dependent upon the existence and discovery of economically recoverable oil and natural gas reserves and the ability of the Corporation to secure adequate sources of financing to fund the development of its assets and achieve production. The outcome of these matters cannot be predicted with certainty at this time.

CASH FLOWS

Operating Activities

For the period ended June 30, 2011, the Corporation incurred a net loss of $2,920,513. Non-cash income statement amounts recorded during the period included $1,000,000 in stock-based compensation, $22,093 in amortization and accretion, and $3,530 in additional items factoring a foreign exchange gain. Total change to non-cash working capital items during the period amounted to $283,550 for an aggregate use of cash in operating activities of $2,185,500.

Investing Activities

For the period ended June 30, 2011, the Corporation incurred $4,274,457 on the continued development of the Properties. The majority of these development costs included drilling of the Copper Moki-1 well. The Corporation incurred $326,927 on intangible assets and $67,913 on property, plant and equipment due to the negotiated acquisition on certain of the IRBA assets. The Corporation also paid $1,104,952 as deposit toward the acquisition of the Alton Permit pursuant to the Alton Agreement. Total cash used in investing activities for the period was $4,666,223.

Financing Activities

For the period ended June 30, 2011, financing activities provided for $5,990,000. All cash provided from financing activities was a result of issuing seed capital. Subsequent to June 30, 2011, the Corporation completed an Offering for gross proceeds of $20,000,000.

RELATED PARTY TRANSACTIONS

Consulting Agreement between J. Proust & Associates Inc., John G. Proust and the Corporation

The Corporation entered into an amended and restated consulting agreement dated July 13, 2011 with John G. Proust and JPA. Pursuant to the agreement, the Corporation has agreed to pay:

(a) $15,000 (plus HST) per month to JPA for providing the business advice, management and advisory services of Mr. Proust commencing November 12, 2010;
(b) $37,000 (plus HST) per month to JPA for providing the services of the Corporation's Chief Financial Officer, Corporate Secretary and Vice President Corporate and Legal Affairs and for finance, accounting and administrative services provided to the Corporation commencing December 31, 2010; and
(c) $7,000 (plus HST) per month to JPA for providing the services of the Corporation's Vice President Communications and Investor Relations commencing July 11, 2011.

Period-end balances arising from the purchase of goods and services under this agreement totalled $nil.

Consulting Agreement between Wexford Energy Ltd., Bruce G. McIntyre and the Corporation

The Corporation entered into a consulting agreement effective November 1, 2010 with Wexford and Bruce G. McIntyre, pursuant to which it has agreed to pay Wexford $16,000 (plus HST) per month for management services provided to the Corporation. The consulting agreement also retains the services of Mr. McIntyre as President of the Corporation. Period-end balances arising from the purchase of goods and services under this agreement totaled $17,920.

IRBA Agreement

NZEC entered into an asset purchase agreement with IRBA pursuant to which NZEC acquired certain of IRBA's assets, including geological data, office equipment, personnel and an office lease in Wellington, New Zealand. In consideration for the transfer of the assets, NZEC paid $400,000 and issued 2,000,000 common shares to IRBA, at a deemed price of $0.50 per common share.

Employment Agreement between Ian R. Brown and NZEC Management Limited

NZEC entered into an employment agreement effective March 1, 2011 with Dr. Ian R. Brown, pursuant to which it has agreed to pay Dr. Brown $15,000 per month for providing his services as Chief Operating Officer of the Corporation.

Consulting Agreement between Cliff P. Butchko and the Corporation

The Corporation entered into a consulting agreement effective April 1, 2011 with Cliff P. Butchko, pursuant to which it has agreed to pay Mr. Butchko $15,000 (plus HST) per month for consulting services provided to the Corporation. The consulting agreement also retains the services of Mr. Butchko as Vice President, Engineering of the Corporation. Period-end balances arising from the purchase of goods and services under this agreement totaled $16,800.

The related party transactions incurred during the year were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed by the related parties.

OFF-BALANCE SHEET ARRANGEMENTS

The Corporation does not have any off-balance sheet arrangements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation's critical accounting estimates are those estimates having a significant impact on the Corporation's financial position and operations and that require management to make judgments, estimates and assumptions in the application of IFRS. Judgments, estimates and assumptions are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. As events occur and additional information is obtained, these judgments, estimates and assumptions may be subject to change. The following are the critical accounting estimates used in the preparation of the Corporation's audited financial statements.

Assessment of Commercial Reserves

Management is required to assess the level of the Corporation's commercial reserves together with the future expenditures to access those reserves, which are used in determining the amortization and depletion charge for the period and assessing whether any impairment charge is required. The Corporation employs independent reserve specialists who periodically assess the Corporation's level of commercial reserves by reference to data sets including geological, geophysical and engineering data together with reports, presentation and financial information pertaining to the contractual and fiscal terms applicable to the Corporation's assets. In addition, the Corporation undertakes its own assessment of commercial reserves and related future capital expenditures by reference to the same datasets using its own internal expertise. As the Corporation is in the exploration phase of its development, there are presently no identifiable commercial reserves.

Impairment

At each reporting date, the Corporation reviews the carrying amounts of its facilities and equipment and exploration and evaluation assets to determine whether there is any indication that those assets have suffered an impairment loss. Individual assets are grouped together as a cash-generating unit for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are independent from other group assets. In the case of exploration and evaluation assets, this will normally be at the Corporation's field level. If any such indication of impairment exists, the Corporation makes an estimate of its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Where the carrying amount of a cash-generating unit exceeds its recoverable amount, the cash generating unit is considered impaired and is written down to its recoverable amount. In assessing the value in use, the estimated future cash flows are adjusted for the risks specific to the cash generating unit and are discounted to their present value with a discount rate that reflects the current market indicators. Where an impairment loss subsequently reverses, the carrying amount of the asset cash generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the cash generating unit in prior periods. A reversal of an impairment loss is immediately recognized as income.

Decommissioning Provisions

Management of the Corporation has determined, based on its understanding of the contractual agreements in New Zealand to which the Corporation is a party, that the Corporation had an asset retirement obligation of $119,404 as at June 30, 2011. The Corporation's asset retirement obligations resulted from net ownership in oil and gas development activity. The Corporation estimates the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately NZ$160,000 which will be incurred between 2011 and 2013. However, these assumptions involve judgment, which may be subject to change, and therefore the position will be reviewed on an ongoing basis. A change in circumstances may also result in additional liabilities being recorded in future periods.

Income Taxes

Deferred tax assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be used. To the extent that the Corporation does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

FUTURE ACCOUNTING POLICIES

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or International Financial Reporting

Interpretations Committee that are mandatory for accounting periods beginning after January 1, 2011. The standards impacted that are applicable to the Corporation are as follows:

Financial Instruments

IFRS 9 Financial instruments ("IFRS 9") was issued by IASB on November 12, 2009 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Corporation is currently evaluating the impact of IFRS 9 on its financial statements.

Related Party Disclosures – Revised Definition of Related Parties

On November 4, 2009, IASB issued a revised version of IAS 24 Related Party Disclosures ("IAS 24"). IAS 24 requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences, the other party. IAS 24 has simplified the definition of a related party and removed certain of the disclosures required by the predecessor standard. The revised standard is effective for annual periods beginning on or after January 1, 2011. The Corporation is currently evaluating the impact of the change to IAS 24 on its financial statements.

Other Recently Issued Accounting Standards

In May 2011, IASB issued the following standards which have not yet been adopted by the Corporation: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", and IFRS 13 "Fair Value Measurement". Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Corporation has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

FINANCIAL INSTRUMENTS

The Corporation's principal financial liabilities are composed of trade and other payables and amounts due to related parties. The main purpose of these financial instruments is to manage short-term cash flow and raise finances for the Corporation's capital expenditure program. The Corporation has various financial assets, including cash and amounts receivable, which arise directly from its operations. The carrying value of these financial instruments is approximated by their fair value due to their short-term nature.

The Corporation's activities expose it to a variety of financial risks: interest rate risk, credit risk, foreign exchange risk, liquidity risk and market risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Corporation's financial performance.

Risk management is carried out by senior management and is overseen by the Board of Directors.

Interest Rate Risk

The Corporation's only significant interest-bearing asset as at June 30, 2011 is its cash equivalents of $5,342,115. The Corporation's income and operating cash flows are not significantly affected by changes in market interest rates.

The Corporation has no debt which carries interest rate risk.

Credit Risk

Credit risk arises from cash and cash equivalents and deposits with banks, as well as credit exposures to customers, including outstanding receivables and committed transactions.

There is no significant concentration of credit risk other than cash deposits. The Corporation's cash deposits are primarily held with a high-quality Canadian financial institution.

Foreign Exchange Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Corporation incurs expenditures in currencies other than Canadian dollars and is thereby exposed to foreign exchange risk arising from currency exposures. Where this risk exists, and is material, the Corporation holds cash in currencies in amounts approximately equivalent to the amount of expenditure that the Corporation expects to incur in that currency. Alternatively, the Corporation may enter into forward exchange contracts.

Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash or marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to pay obligations as they fall due. Due to the dynamic nature of the underlying businesses, the Corporation aims to maintain the maximum flexibility in funding options as deemed prudent. Financial liabilities at June 30, 2011 included $251,739 of accounts payable and accrued liabilities that have a contractual maturity date of less than one year from June 30, 2011. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

The Corporation is currently considering funding options that are available, including raising additional funds from institutional investors or current shareholders, and is confident that funding will be available to meet its near- and long-term work programs.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. The market price movements that could adversely affect the value of the Corporation's financial assets, liabilities and expected future cash flows include commodity price risk and foreign exchange risk.

SHARE CAPITAL

The Corporation's authorized share capital consists of an unlimited number of voting common shares. As at June 30, 2011, the Corporation had 77,010,000 common shares outstanding.

As of the date of this MD&A, the Corporation's fully diluted share capitalization included 97,698,605 common shares, 600,000 warrants, 4,828,000 stock options outstanding, and an over-allotment option to subscribe to 3,000,000 common shares at any time up to 30 days following the Listing Date.

FORWARD-LOOKING INFORMATION

This MD&A contains certain 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 “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “project”, “propose”, “should”, “believe”, “initiate”, “with the objective of”, “plan”, 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, including without limitation, 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 cots of extracting and delivering oil and natural gas to market, that 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; global financial market events that cause significant volatility in commodity prices; unexpected costs or liabilities for environmental matters; competition for, among other things, capital, acquisitions of resources, 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 to realize the anticipated benefits of acquisitions; and other factors discussed under “Risk Factors” in NZEC’s Prospectus dated July 19, 2011. NZEC 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 news release should not be unduly relied upon. These statements speak only as of the date of this MD&A and NZEC does not undertake to update any forward-looking statements that are contained in this MD&A, except in accordance with applicable securities laws.