NEW ZEALAND ENERGY CORP.

Second Quarter 2012
Management's Discussion and Analysis

June 30, 2012

(Expressed in Canadian Dollars)

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, 2011, and the unaudited condensed consolidated interim financial statements for the period ended June 30, 2012, 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") as issued by the International Accounting Standards Board ("IASB") 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, 2012 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" and on the OTCQX International Exchange under the symbol "NZERF". Additional information is available on SEDAR and on the Corporation's website at www.newzealandenergy.com.

DESCRIPTION OF BUSINESS

NZEC, through its wholly-owned subsidiaries (collectively "NZEC" or "the Corporation") is engaged in the production, exploration and development of oil and natural gas resources in New Zealand's North Island. NZEC has drilled five exploration wells in the Taranaki Basin, three of which are in production, and plans to drill eight additional conventional wells by year-end 2012. Drilling of the first additional well commenced at the Waitapu site on August 19.

The Corporation's major assets (the "Properties") consist of the following Petroleum Exploration Permits ("PEPs"): located in the Taranaki Basin, a 100% interest in PEP 51150 (the "Eltham Permit") and a 50% interest in PEP 51151 (the "Alton Permit") (NZEC has entered into an agreement with L&M Energy Limited ("L&M") to increase its interest in the Alton permit from 50% to 65%, and expects to complete its obligations and earn the additional 15% interest in Q3-2012); and located in the East Coast Basin, a 100% interest in PEP 52694 (the "Castlepoint Permit"), a 100% interest in PEP 38342 (the "Ranui Permit") and a 100% interest in PEP 52976 (the "East Cape Permit") pending the grant of that permit by New Zealand's Minister of Energy. The application for the East Cape Permit is uncontested and the Corporation expects the permit to be granted upon completion of New Zealand Petroleum & Minerals' review of the application. In addition, NZEC has entered into a binding agreement with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited to acquire upstream and midstream assets in the Taranaki Basin including four Petroleum Mining Licenses totalling 26,907 acres as well as the Waihapa Production Station and associated gathering and sales infrastructure. The acquisition is expected to close in Q4-2012, subject to certain conditions precedent.

APPROACH TO BUSINESS

New Zealand offers a unique opportunity to develop hydrocarbon resources in multiple underexplored onshore and offshore sedimentary basins. All of the current production is derived from the Taranaki Basin in conventional targets using vertical wells and limited enhanced technology. Despite highly prospective geology, New Zealand remains vastly underexplored. All of 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.

NZEC has chosen to focus its activities in New Zealand and has developed a business model with four main steps: identifying high-quality assets on trend with oil and gas producing fields and executing strategic acquisitions or farm-in agreements; developing local partnerships through open communication and collaboration; prioritizing exploration leads identified on 3D seismic with multiple prospective formations; growing reserves, production and cash flow with oil-focused exploration success.

As part of its commitment to developing local partnerships, in February 2012 NZEC entered into a Cooperation Agreement with Te Runanga o Ngati Ruanui Trust ("TRoNRT"), the iwi (tribe) located in South Taranaki near NZEC's Eltham and Alton permits. Under the terms of the agreement, TRoNRT will support NZEC's exploration, development and production activities within the Ngati Ruanui area and NZEC will contribute to positive cultural, economic and social outcomes for the development of Ngati Ruanui and its communities.

NZEC's near-term exploration and production activities are focused in the Taranaki Basin, with three wells currently producing from the Mt. Messenger formation. NZEC's Taranaki permits are on trend with numerous oil and gas producing fields, some of which have been producing for decades, and the Taranaki Basin offers multi-zone potential from drill-proven formations. NZEC's Taranaki exploration strategy is to prioritize drilling of wells based on 3D seismic that have well-defined, lower-risk Mt. Messenger targets coupled with additional exploration potential from the Urenui, Moki, Tikorangi and Kapuni formations.

In the East Coast Basin, 300 oil and gas seeps have been sourced back to two oil shale formations, the Waipawa and the Whangai. Historical exploration in the basin has been focused on conventional Miocene sands sitting above the oil shales. NZEC's goal is to unlock the potential of the oil shale formations using modern technology.

NZEC is committed to meeting the highest environmental standards and bringing long-term benefits to the communities in which it works.

FINANCIAL SNAPSHOT

	For the three months ended June 30, 2012	For the three months ended March 31, 2012	For the year ended December 31, 2011
Production	55,226 bbl*	39,852 bbl*	11,623 bbl*
Sales	58,952 bbl	34,659 bbl	9,567 bbl
Price	105.28 $/bbl	117.94 $/bbl	106.83 $/bbl
Production costs	22.14 $/bbl	22.25 $/bbl	23.44 $/bbl
Royalties	5.02 $/bbl	5.16 $/bbl	4.96 $/bbl
Field netback	78.12 $/bbl	90.53 $/bbl	78.43 $/bbl
Revenue	$ 5,910,993	$ 3,908,683	$ 974,517
Preproduction recoveries	759,280	1,351,630	950,440
Total comprehensive income (loss)	1,317,915	799,032	(6,655,829)
Interest income	140,315	18,311	119,583
Earnings (loss) per share - basic	0.01	0.00	(0.08)
Earnings (loss) per share - diluted	0.01	0.00	(0.08)
Current assets	59,205,659	76,167,931	19,293,345
Total assets	98,814,102	96,979,923	31,152,804
Total liabilities	5,737,495	6,017,299	1,383,376
Shareholders' equity	93,076,607	90,962,624	29,769,428

* The abbreviation **bbl** means barrel or barrels of oil.

During the six-month period ended June 30, 2012, the Corporation produced 95,078 barrels of oil and sold 93,611 barrels from Copper Moki-1 and Copper Moki-2. Copper Moki-3 flowed 7,456 barrels and 4,765 thousand cubic feet ("Mcf") of natural gas[1] during production testing in the second quarter and commenced continuous production on July 2, 2012. Preproduction revenue generated during the start-up and testing phase of the well was treated as a cost recovery of the capitalized well development costs. Total recoveries on the oil produced and sold during the start-up and testing phase of Copper Moki-3 amounted to $759,280, or $101.83 per barrel.

[1] Natural gas and associated natural gas liquids are currently being flared until the well can be tied into NZEC's natural gas pipeline.

The aggregate volume of oil produced during the six-month period ended June 30, 2012, including production testing of Copper Moki-2 and Copper Moki-3, was 115,403 barrels with 115,968 barrels sold, taking into consideration the opening period inventory balances, resulting in positive cash flow from operations of $9,853,825.

At August 28, 2012, the Corporation had $43.8 million in cash and cash equivalents.

RECENT TRANSACTIONS

In May 2012, the Corporation entered into a binding agreement (the "Origin Agreement") with Origin Energy Resources NZ (TAWN) Limited, a wholly-owned subsidiary of Origin Energy Limited (collectively "Origin") to acquire upstream and midstream assets (the "Acquisition"). These assets include four Petroleum Mining Licenses totalling 26,907 acres (the "Petroleum Licenses") as well as the Waihapa Production Station and associated gathering and sales infrastructure.

Under the terms of the Origin Agreement, and pursuant to an exclusive arrangement, the Corporation has agreed to pay Origin consideration in the amount of $42 million in cash, payable in the US$ equivalent at a fixed C$/US$ exchange rate of 1.0349, and such other adjustments as may be required at closing. A $5 million non-refundable deposit was paid with the remainder due on closing, which is anticipated to occur in Q4-2012. Closing of the Acquisition is contingent on receiving government approvals, Origin completing the current recommissioning of the TAWN LPG extraction facility, Origin and/or NZEC entering into an agreement with Contact Energy regarding ongoing operation of Contact's Ahuroa gas storage facility, and standard TSX Venture Exchange approvals.

Upon announcing the Origin Acquisition, NZEC set aside funds for the transaction by converting Canadian dollar cash balances to US$26 million, which was deposited into a US$ bank account to protect the Corporation against currency fluctuations. The remaining approximately US$9.8 million outstanding and due upon closing will be funded from operational cash flows, which are received in US$.

Exploration Assets

Pursuant to the Origin Agreement, NZEC will acquire four Petroleum Licenses in the main production fairway of the Taranaki Basin, contiguous with the northern border of NZEC's Eltham and Alton permits. The Petroleum Licenses offer multi-zone potential from the Urenui, Mt. Messenger, Moki, Kapuni and Tikorangi formations. The Petroleum Licenses are permitted and renewable without relinquishment, subject to government approval. Included are 16 established drill pads, most with production infrastructure in place, which will allow for timely tie-in to the Waihapa Production Station upon exploration and completion success.

The Acquisition includes 93 km^2 of 3D seismic data with coverage over approximately 50% of the Petroleum Licenses and 585 km of 2D seismic data. NZEC has access to well log data from 27 previously drilled wells, offering additional insight into the geology of the area. Numerous existing wells offer uphole completion opportunities in NZEC's target formation, with well log data demonstrating production potential from the Mt. Messenger and Kapuni formations and good hydrocarbon shows from the Moki and Urenui formations.

NZEC's technical team has completed a preliminary review of the 3D seismic and well log data covering the southern half of the Petroleum Licenses and identified 8 Urenui leads, 14 Mt. Messenger leads and 8 Moki leads, significantly expanding NZEC's drilling inventory in the Taranaki Basin. NZEC will refine and prioritize these leads within the context of its 2013 exploration program.

Production and Infrastructure Assets

The Waihapa Production Station is located approximately three kilometres from NZEC's Copper Moki site and is central to NZEC's inventory of exploration prospects, thereby reducing transportation and processing costs for NZEC's oil and gas production. As the only open-access midstream facility in the Taranaki Basin, the Waihapa Production Station offers business opportunities for processing third-party gas, liquids, oil and water. Origin will continue as operator of the Production Station during a transition period through to mid-2013.

The Waihapa Production Station and associated infrastructure includes:

- a 45 mmcf/d gas processing, gas compression and LPG extraction facility ("TAWN facility");
- a 51-km 8-inch gas sales pipeline from the Waihapa Production Station to the Stratford Gas Power Generation Plant then terminating in 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.

RECENT DEVELOPMENTS

On August 19, NZEC commenced drilling of the Waitapu-1 well at its newly-established Waitapu site, approximately 1.3 km south of the Corporation's Copper Moki site. Waitapu-1 has a target depth of 2,172 metres and is expected to drill through the Mt. Messenger formation.

On July 9, NZEC announced the commencement of continuous production from its Copper Moki-3 well. The well is producing from natural reservoir pressure through a 18/64 inch choke out of the Mt. Messenger formation, producing at an average rate of 219 bbl/d and 252 Mcf/d[1] during the month of August. NZEC also announced the completion of a production test for Copper Moki-4, the Corporation's first Urenui formation well. The well produces 29° API and is currently shut in while NZEC completes the well test analyses and economic evaluation of artificial lift systems required to make a production decision.

NZEC is expanding and restructuring its leadership team to support continued growth in all areas of its business. Chris Bush has been appointed New Zealand Country Manager, commencing in October. Mr. Bush is an experienced oil and gas professional with more than 30 years of experience in both upstream and downstream sectors. As NZEC's New Zealand Country Manager, Mr. Bush will oversee all aspects of the Company's in-country activities, including government and community relations, production activities, acquisition/partnership opportunities, and integration of the Petroleum Licenses and Waihapa Production Station that NZEC has agreed to acquire pursuant to the Origin Agreement. Mike Oakes joined NZEC as General Manager Midstream Operations on August 6. Mr. Oakes has worked in the oil and gas industry for 33 years overseeing design, commissioning and start up, staffing and operation of both onshore and offshore oil and gas fields and production facilities. As General Manager Midstream Operations, Mr. Oakes will be responsible for all producing wells and operation of the Waihapa Production Station. James Watchorn joined NZEC as Operations Manager on July 30, bringing more than 15 years of technical experience in oilfield operations to the Corporation. Mr. Watchorn is a mechanical engineer experienced in all aspects of drilling, completions and production, along with facility and wellsite construction. As Operations Manager, Mr. Watchorn will work with NZEC's General Manager Upstream Operations to design and execute the Corporation's exploration and production strategy. As part of the restructuring, Bruce McIntyre has been appointed to the role of Executive Director and Cliff Butchko has been appointed to the role of General Manager Upstream Operations.

NZEC is in advanced discussions with potential lenders regarding a reserve-based borrowing facility, and has received an indicative term sheet from its preferred lender.

PROPERTY REVIEW

Taranaki Basin

The Taranaki Basin is situated on the west coast of the North Island and is currently New Zealand's only oil and gas producing basin, producing approximately 130,000 boe/d from 18 fields. Within the Taranaki Basin, NZEC holds a 100% interest in the Eltham Permit, which covers approximately 93,167 acres (377 km^2) of which approximately 31,877 acres (129 km^2) are offshore in shallow water, and a 50% interest in the Alton Permit in joint venture with L&M. The Alton Permit covers approximately 119,204 onshore acres (482 km^2). On February 21, 2012, NZEC entered into an agreement with L&M whereby NZEC can increase its interest in the Alton Permit to 65% by funding the collection and processing of 3D seismic data over approximately 50 km^2 of the permit. NZEC expects to deliver the 3D seismic data to L&M and earn its 65% interest in Q3-2012.

NZEC also expects to acquire four Petroleum Licenses and the Waihapa Production Station upon completion of the Acquisition, as outlined in the Origin Agreement.

NZEC has made four consecutive oil discoveries in the Taranaki Basin. NZEC's Copper Moki-1 well has been flowing from natural reservoir pressure from the Mt. Messenger formation since December 10, 2011. Copper Moki-2 has been flowing from natural reservoir pressure out of the Mt. Messenger formation since April 1, 2012. Copper Moki-3 has been flowing from natural reservoir pressure out of the Mt. Messenger formation since July 2, 2012. The wells are producing 41.8^o API oil that is trucked to the Shell-operated Omata tank farm and sold at Brent pricing, resulting in a field netback of approximately US$78/barrel in Q2-2012. NZEC calculates the netback as the oil sale price less fixed and variable operating costs and a 5% royalty. The netback reflects an average realized oil price in Q2-2012 of US$105, and will fluctuate based on variances in oil price. Copper Moki-4 is currently shut in while NZEC completes the well test analyses and economic evaluation of artificial lift systems required to make a production decision. Total corporate production in August averaged 672 boe/d (465 bbl/d and 1,247 Mcf/d).

NZEC has completed a natural gas pipeline from the Copper Moki site to the Waihapa Production Station. The operator is finalizing arrangements to receive the gas and NZEC expects to begin generating cash flow from its natural gas production shortly. Copper Moki-1 and Copper Moki-2 are tied into the natural gas pipeline and produced approximately 995 Mcf/d of natural gas during the month of August. NZEC expects to tie Copper Moki-3 into the natural gas pipeline before year-end.

On August 19, NZEC commenced drilling of the Waitapu-1 well at its Waitapu pad. Waitapu-1 has a target depth of 2,172 metres and is expected to drill through the Mt. Messenger formation.

East Coast Basin

The East Coast Basin of New Zealand's North Island hosts two highly prospective shale formations, the Waipawa and Whangai, which are the source of more than 300 oil and gas seeps. Within the East Coast Basin, NZEC holds a 100% interest in the Castlepoint Permit, which covers approximately 551,042 onshore acres (2,230 km^2), and a 100% interest in the Ranui Permit, which covers approximately 223,087 onshore acres (903 km^2) and is adjacent to the Castlepoint Permit. On September 3, 2010, NZEC applied to the Minister of Energy to obtain a 100% interest in the East Cape Permit. The application is uncontested and the Corporation expects the East Cape Permit to be granted to NZEC upon completion of New Zealand Petroleum & Minerals' 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.

NZEC has completed the coring of two test holes on its Castlepoint Permit. The Orui (125 metres total depth) and Te Mai (195 metres total depth) collected data across the Waipawa and Whangai shales. NZEC also completed a test hole on its Ranui Permit. Ranui-2 was drilled to 1,440 metres, coring the Whangai shale across several intervals. In Q2-2012, NZEC completed 70 line kilometres of 2D seismic data across the Castlepoint and Ranui permits to further its technical understanding of the area.

OUTLOOK

Taranaki Basin

With three wells in production, NZEC is focused on growing reserves, production and cash flow. NZEC is permitting a number of new drill pads as the Company advances toward its objective of drilling eight additional conventional wells and increasing production to 3,000 barrels of oil equivalent per day by year-end 2012. The Corporation has entered into a rig contract with Ensign International Energy Services Pty Ltd. and on August 19 commenced drilling the Waitapu-1 well.

With completion of the four Copper Moki wells, NZEC has gained tremendous insight into the Moki, Mt. Messenger and Urenui formations. While the Mt. Messenger formation remains the Company's primary target, NZEC's drilling inventory includes a number of leads with Moki targets and the Corporation expects that at least two of the eight wells will be drilled to the deeper Moki formation.

On its Eltham and Alton permits in the Taranaki Basin, NZEC has identified six prospects on 3D seismic similar to Copper Moki, with the expectation of establishing one pad per prospect with two to four wells per pad. NZEC has also identified 12 leads on 2D seismic that will be further defined with data from the recently acquired 100 km^2 3D seismic survey. The 3D seismic survey will further define existing prospects and reduce drilling risk while potentially identifying new exploration leads and expanding NZEC's inventory locations for its 2013 exploration program.

New exploration leads and uphole completion opportunities on the Petroleum Licenses will further expand NEZC's drill inventory. NZEC's technical team is completing a thorough review of the Petroleum Licenses to further define exploration leads and uphole completion opportunities, and determine the status of existing wells, drill pads and surface facilities. Once the Acquisition is complete, these exploration opportunities will be ranked in comparison to the Corporation's Eltham and Alton leads to plan future exploration programs. NZEC plans to drill at least one well per month in the Taranaki Basin in 2013.

East Coast Basin

NZEC has drilled two stratigraphic holes on its 100% working interest Castlepoint Permit and one stratigraphic hole on its 100% working interest Ranui Permit. These three stratigraphic test wells will advance NZEC's understanding of the Waipawa and Whangai formations. A review of the geochemical and physical properties of the two shale packages, coupled with information from existing seismic data and the newly completed 70 km 2D seismic survey, will help focus NZEC's exploration strategy for the East Coast shales. NZEC plans to drill at least one exploration well on the East Coast Basin in 2013.

The Corporation's application for the East Cape Permit is uncontested and NZEC expects the permit to be granted upon the completion of New Zealand Petroleum & Minerals' review of the application.

SUMMARY OF QUARTERLY RESULTS

	2012 Q2 $	2012 Q1 $	2011 Q4 $	2011 Q3 $
Total assets	98,814,102	96,979,923	31,152,804	33,566,611
Exploration and evaluation assets	25,373,718	12,103,712	6,052,699	9,509,095
Property, plant and equipment	8,674,152	8,150,802	5,509,511	63,421
Working capital	53,844,035	70,401,191	18,030,398	18,699,022
Revenues	5,910,993	3,908,683	974,517	-
Accumulated deficit	(15,613,594)	(16,548,180)	(16,911,070)	(17,057,134)
Total comprehensive income (loss)	1,317,915	799,032	(1,258,314)[1]	(4,279,538)
Basic earnings/(loss) per share	0.01	0.00	0.01	(0.04)
Diluted earnings/(loss) per share	0.01	0.00	0.01	(0.04)

	2011 Q2 $	2011 Q1 $	2010 Q4 $
Total assets	10,683,239	11,491,806	6,301,322
Resource properties	4,641,525	3,161,561	60,222
Property, plant and equipment	68,366	65,721	-
Working capital	5,333,999	7,596,329	5,857,692
Revenues	-	-	-
Accumulated deficit	(13,258,649)	(12,168,826)	(10,338,136)
Total comprehensive loss	(773,524)	(1,878,754)	(10,338,136)
Basic earnings/(loss) per share	(0.01)	(0.03)	(0.24)
Diluted earnings/(loss) per share	(0.01)	(0.03)	(0.24)

[1] During the fourth quarter of fiscal 2011, the Corporation reclassified various expenditures to exploration and evaluation assets.

New Zealand Energy Corp. was incorporated on October 29, 2010 under the Business Corporations Act of British Columbia. Upon incorporation, 40,000,000 common shares were granted to certain directors and officers of the Corporation in lieu of the services performed and substantial financial guarantees provided to assist in obtaining the legal rights to the Castlepoint and East Cape petroleum exploration permits within the East Coast Basin. The corporation then raised seed capital of $7,000,000 upon the subsequent issuance of 28,000,000 common shares in Q4-2010 and Q1-2011 to engage in the exploration, acquisition and development of petroleum and natural gas assets in New Zealand. This financing was followed by another private placement completed in Q1-2011 for gross proceeds of $5,257,500 on the issuance of 7,010,000 common shares. The Corporation entered into an agreement in Q1-2011 with Ian R Brown Associates ("IRBA") pursuant to which it would acquire certain assets and provide employment to certain personnel in consideration for CDN $400,000 and the issuance of 2,000,000 common shares. Also in Q1-2011, upon satisfying the conditions of a deed of assignment, the Corporation took ownership of its Eltham Permit. Further exploration and evaluation expenditures continued on the Eltham Permit throughout fiscal 2011, which ultimately saw the commercialization of the Copper Moki-1 well in Q4-2011. All costs related to the Copper Moki-1 well were transferred to property, plant and equipment in Q4-2011. In Q2-2011, the Corporation agreed to acquire a 50% interest in the Alton permit for AUD2,000,000 and fund 100% of the Talon-1 well development costs, which totalled $2,544,131. The Talon-1 well development costs were written off in Q3-2011 due to management's view that the well would not provide any future benefits. In Q2-2011, the Corporation completed the acquisition of its Ranui permit for USD1,000,000 and the issuance of 1,000,000 common shares.

In Q1-2012, the Corporation continued its development plans by drilling Copper Moki-2 and Copper Moki-3 and positioned itself to drill Copper Moki-4 in Q2-2012. As a result of the successful completion of Copper Moki-2, the well was placed on continuous production during Q2-2012. During Q2-2012, Copper Moki-3 produced and sold 7,456 barrels of oil during the start-up and testing phase and recorded recoveries of $759,280. The well was placed on continuous production at the commencement of Q3-2012. In addition, the Corporation entered into an agreement to increase its position by 15% within the Alton Permit and completed a bought deal financing for gross proceeds of $63.5 million during the first quarter through issuance of 21,160,000 common shares at a price of $3.00/share. During Q2-2012, the Corporation also entered into the Origin Agreement with Origin to acquire upstream and midstream assets for $42 million in cash and such other adjustments as may be required at closing. A $5 million deposit was paid with the remainder due on closing, which is anticipated to occur in Q4-2012. Since the Corporation's inception, general and administrative costs have been incurred to assist in establishing the operating structure, setting up offices in both Canada and New Zealand, securing key personnel and general business development.

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2012

Revenue

During the three-month period ended June 30, 2012, the Corporation produced 55,226 barrels of oil and sold 58,952 barrels for total revenues of $6,206,749, or $105.28 per barrel. Total recorded gross production revenue was $5,910,993, which accounted for royalties of $295,756, or $5.02 per barrel sold. No revenues or royalties were recognized during the same period in fiscal 2011.

Expenses and Other Items

Production costs during the three-month period ended June 30, 2012 totalled $1,305,452, or $22.14 per barrel. Included in production costs are all site-related expenditures, including applicable equipment rental fees, site services, overheads and labour; transportation and storage costs including trucking, testing, tank storage, processing and handling; and port dues as incurred prior to the sale of oil. No production costs were incurred during the same period in fiscal 2011.

Depreciation and accretion costs incurred during the three-month period ended June 30, 2012 totalled $1,519,447, or $25.77 per barrel sold. Depreciation is based on using the unit-of-production method by reference to the ratio of production in the period to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to access those reserves. No depreciation and accretion costs were incurred during the same period in fiscal 2011.

Stock-based compensation for the three-month period ended June 30, 2012 totalled $467,875 compared to $nil during the same period in 2011. The non-cash charge incurred during the period related to the options granted to directors, officers and employees of the Corporation upon the completion of the Corporation's initial public offering in August 2011 and subsequent grants to new employees.

General and administrative expenses for the three-month period ended June 30, 2012 totalled $1,007,617 compared to $1,102,503 incurred in the same period in fiscal 2011. The general and administrative expenses incurred during the period related to professional fees, management fees, consulting fees, travel and promotion, rent, overheads, filing and insurance costs. See Note 11 to the June 30, 2012 unaudited condensed consolidated interim financial statements for detail.

Transaction costs for the three-month period ended June 30, 2012 totalled $200,779 compared to $nil incurred in the same period in fiscal 2011. The transaction costs incurred during the period included legal and professional fees incurred for the Origin transaction.

Finance income for the three-month period ended June 30, 2012 totalled $140,315 compared to $19,222 in the same period in fiscal 2011. Finance income relates to interest earned on the Corporation's cash and cash-equivalent balances held in treasury.

Foreign exchange loss for the three-month period ended June 30, 2012 amounted to $615,552 compared to a $5,140 gain realized in the same period of fiscal 2011. Foreign exchange gains and losses are a result of currency exchange differences being recognized on transactions during the period.

Total Comprehensive Income (Loss)

Total comprehensive income for the three-month period June 30, 2012 totalled $1,317,915 after taking into account a gain on the exchange difference on translation of foreign currency of $383,329, which compared to a total comprehensive loss for the three-month period ended June 30, 2011 of $773,524.

Based on a weighted average shares outstanding balance of 121,769,105, and diluted weighted average shares outstanding of 122,843,464, the Corporation realized a positive $0.01 basic and diluted earnings per share for the three-month period ended June 30, 2012. During the period ended June 30, 2011, the Corporation realized a $0.01 basic and diluted loss per share on a weighted average share balance of 77,010,000.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

Revenue

During the six-month period ended June 30, 2012, the Corporation produced 95,078 barrels of oil and sold 93,611 barrels for total revenues of $10,294,425, or $109.97 per barrel. Total recorded gross production revenue was $9,819,676, which accounted for royalties of $474,749, or $5.07 per barrel sold. No revenues or royalties were recognized during the same period in fiscal 2011.

Expenses and Other Items

Production costs during the six-month period ended June 30, 2012 totalled $2,076,761, or $22.19 per barrel. Included in production costs are all site-related expenditures, including applicable equipment rental fees, site services, overheads and labour; transportation and storage costs including trucking, testing, tank storage, processing and handling; and port dues as incurred prior to the sale of oil. No production costs were incurred during the same period in fiscal 2011.

Depreciation and accretion costs incurred during the six-month period ended June 30, 2012 totalled $2,442,280, or $26.09 per barrel sold. Depreciation is based on using the unit-of-production method by reference to the ratio of production in the period to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to access those reserves. No depreciation and accretion costs were incurred during the same period in fiscal 2011.

Stock-based compensation for the six-month period ended June 30, 2012 totalled $1,047,105 compared to $1,000,000 during the same period in 2011. The non-cash charge incurred during the period related to the options granted to directors, officers and employees of the Corporation upon completion of the Corporation's initial public offering in August 2011 and subsequent grants to new employees.

General and administrative expenses for the six-month period ended June 30, 2012 totalled $2,268,753 compared to $1,928,626 incurred in the same period in fiscal 2011. The general and administrative expenses incurred during the period related to professional fees, management fees, consulting fees, travel and promotion, rent, overheads, filing and insurance costs. See Note 11 to the June 30, 2012 unaudited condensed consolidated interim financial statements for detail.

Transaction costs for the six-month period ended June 30, 2012 totalled $200,779 compared to $nil incurred in the same period in fiscal 2011. The transaction costs incurred during the period included legal and professional fees incurred for the Origin transaction.

Finance income for the six-month period ended June 30, 2012 totalled $158,626 compared to $26,676 in the same period in fiscal 2011. Finance income relates to interest earned on the Corporation's cash and cash-equivalent balances held in treasury.

Foreign exchange loss for the six-month period ended June 30, 2012 amounted to $645,148 compared to $3,530 gain realized in the same period of fiscal 2011. Foreign exchange gains and losses are a result of currency exchange differences being recognized on transactions during the period.

Total Comprehensive Income (Loss)

Total comprehensive income for the six-month period June 30, 2012 totalled $2,116,947 after taking into account a gain on the exchange difference on translation of foreign currency of $819,471, which compared to a total comprehensive loss for the six-month period ended June 30, 2011 of $2,652,278.

Based on a weighted average shares outstanding balance of 112,351,742, and diluted weighted average shares outstanding of 113,427,285, the Corporation realized a positive $0.01 basic and diluted earnings per share for the six-month period ended June 30, 2012. During the period ended June 30, 2011, the Corporation realized a $0.04 basic and diluted loss per share on a weighted average share balance of 74,584,365.

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2012

Taranaki Basin

During the period ended June 30, 2012, the Corporation recorded $20,089,786 in exploration and evaluation expenditures on its Taranaki Basin permits. Of the total exploration and evaluation assets recorded during the period, $2,766,733 of accumulated expenditures, net of $1,351,630 in pre-production recoveries, was transferred to property, plant and equipment upon the determination of the economic viability of the Copper Moki-2 well. Total recoveries of $2,110,910 recorded during the period, included $1,351,630, which offset the well development costs of the Copper Moki-2 well, related to pre-production revenues realized on the sale of 14,825 barrels of oil during the well's start-up and testing phase; and $759,280, which related to pre-production revenues realized on the sale of 7,530 barrels of oil from Copper Moki-3 well during the well's start-up and testing phase. Factoring the transfer of the Copper Moki-2 well costs ($2,766,733), total exploration and evaluation assets relating to the Taranaki Basin permits increased $15,212,143 over the period to a final balance of $17,689,978 as at June 30, 2012. Of the $15,212,143 increase recognized, $12,011,420 related to additional exploration costs associated with the Eltham Permit and $3,200,723 related to exploration costs associated with the Corporation's interest in the Alton Permit.

The accumulated $2,766,733 in evaluation and exploration assets was transferred to property, plant and equipment in the period ended June 30, 2012 as a result of the Corporation determining that the Copper Moki-2 well was economically viable. Included in the accumulated expenditures were net well development costs of $3,570,200, asset retirement costs of $125,374, allocated overheads, stock-based compensation and the associated foreign currency translation adjustment amounts for an additional aggregate amount of $422,788, offset by cost recoveries of $1,351,630.

East Coast Basin

During the period ended June 30, 2012, the Corporation incurred $1,122,910 in capitalized exploration costs on the Castlepoint Permit. Of the costs incurred during the period, $789,333 related to well development costs, $40,023 was recorded for stock-based compensation, $254,788 related to other overhead costs, and $38,766 was a foreign currency translation adjustment. Total expenditures incurred as of June 30, 2012 relating to the Castlepoint Permit amounted to $2,182,614.

During the period ended June 30, 2012, the Corporation incurred $2,985,965 in capitalized exploration costs on the Ranui Permit. Of the costs incurred during the period, $2,498,962 related to well development costs, $62,268 was recorded for stock-based compensation, $351,879 related to other overhead costs, and $72,857 was a foreign currency translation adjustment. As of June 30, 2012, the Corporation had incurred $5,501,126 in capitalized acquisition costs relating to the Ranui Permit.

During the period ended June 30, 2012, the Corporation did not capitalize any exploration or acquisition costs relating to the East Cape Permit.

PERMIT EXPENDITURE REQUIREMENTS

The Corporation undertakes oil and gas exploration and development activities 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 2012 under its current permits held at December 31, 2011 are as follows:

Oil and Gas Property	**Working Interest** **%**	**Work Commitment or Obligation to December 31, 2012** **$**
Eltham Permit	100	5,914,000
Alton Permit [1]	50	2,485,000
Ranui Permit	100	1,400,000
Castlepoint Permit	100	2,081,000
Total		11,880,000

[1] In the first quarter of 2012, the Corporation announced that it had entered into a farm-in agreement with L&M pursuant to which the Corporation will earn an additional 15% interest in the Alton Permit, increasing the Corporation's interest to 65%, by funding the collection and processing of 3D seismic data over approximately 50 km^2 of the permit.

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.

To complete the minimum work programs required to maintain its permits in good standing, the Corporation estimates that the following expenditures will be required in the five-year period commencing December 31, 2011 in relation to the Eltham Permit, the Alton Permit, the Castlepoint Permit, the Ranui Permit and the East Cape Permit (assuming that this PEP is granted to the Corporation):

Properties	**2012** **$**	**2013** **$**	**2014** **$**	**2015** **$**	**2016** **$**	**Total** **$**
Eltham Permit(1)	5,914,000	Nil	Nil	Nil	Nil	5,914,000
Alton Permit(2)	2,485,000	Nil	Nil	Nil	Nil	2,485,000
Castlepoint Permit(3)	2,081,000	3,192,000	7,960,000	7,960,000	Nil	21,193,000
Ranui Permit(4)	1,400,000	3,750,000	100,000	Nil	Nil	5,250,000
East Cape Permit(5)	-	300,000	1,020,000	1,520,000	3,800,000	6,640,000
	11,880,000	7,242,000	9,080,000	9,480,000	3,800,000	41,482,000

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 fulfilment of the minimum work program and is not based on a specific expenditure level.

Notes:

(1) The Eltham Permit was granted to the previous permit holder on 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 to the previous permit holder on September 23, 2008 for a five-year term expiring September 22, 2013. The Minister of Energy approved the transfer of a 50% interest in the Alton Permit to the Corporation on October 4, 2011. The minimum work program for each year of the Alton Permit must be completed by September 22 of each year, and the Corporation expects to complete the minimum

work program in 2012. The minimum work program required includes drilling of an exploration well, or completing activities of a similar financial or technical value, and additional technical studies.

(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. The minimum work program required includes reprocessing of 2D seismic data, geochemical sampling and technical studies.

(4) The Ranui Permit was granted to the previous permit holder on June 28, 2004, and was subsequently extended to June 27, 2014. The Minister of Energy approved the transfer of the Ranui Permit to the Corporation on June 27, 2011. The minimum work program for 2012 must be completed by June 27, for 2013 must be completed by August 27, and for 2014 must be completed by June 27. The minimum work program required includes re-entering and evaluating the Ranui-1 Well, reprocessing of 2D seismic data, technical studies and drilling an exploration well.

(5) The East Cape Permit has not yet been granted. The above reflect expenditures required to complete the expected minimum work program for each year of the permit, once granted. It is expected that the minimum work program will include reprocessing of seismic data, geochemical sampling and technical studies.

The amounts above represent the minimum expenditure requirements for each year necessary to complete the minimum work program and maintain each of the Permits in good standing; otherwise, the relevant PEP must be surrendered. A PEP holder may, at the end of the initial five-year term, apply to extend the duration of an exploration permit for a second term for a period not exceeding ten years from the commencement date of the PEP. However, there are some conditions that apply, including relinquishment of at least half of the area comprising the PEP at the time of the end of the first term.

As at the date of the MD&A, NZED has materially satisfied its work commitments and obligations and is confident all work commitments and obligations will be met by December 31, 2012.

CAPITAL SPENDING

During the six-month period ended June 30, 2012, property, plant and equipment expenditures increased to $5,693,988 before depreciation and depletion of $2,442,280. Expenditures included $404,678 for land, $580,932 for buildings, $1,144,724 for equipment and fixtures, $21,582 for computer equipment, $28,264 for furniture, and $3,513,480 net of recoveries in oil and gas properties. The oil and gas properties increase related to the accumulated exploration and evaluation expenditures for the Copper Moki-2 well incurred throughout the period ended June 30, 2012 and fiscal 2011 and were transferred to property, plant and equipment as a result of the Corporation determining the economic viability of the Copper Moki-2 well at the end of the first quarter. Included in the accumulated balance transferred were well development costs of $3,570,200, asset retirement costs of $125,374, and allocated overheads, stock-based compensation and associated foreign currency translation adjustment amounts for an additional aggregate amount of $422,788. The Copper Moki-2 well development costs were offset by $1,351,630 in recoveries as a result of the pre-production revenues recognized on the sale of 14,825 barrels of oil during the well's start-up and testing phase.

During the six-month period ended June 30, 2012, exploration and evaluation assets increased by $19,321,019 to $25,373,718. The Corporation incurred $15,212,143 in exploration, evaluation and overhead costs associated with the Taranaki Basin, of which a total of $1,211,420 related specifically to the Eltham Permit. The Corporation incurred $4,108,876 in exploration, evaluation and overhead costs associated with the East Coast Basin of which a total of $2,985,965 related specifically to the Ranui Permit.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2012, the Corporation had $52,228,717 in cash and cash equivalents (December 31, 2011: $16,144,609) and $53,844,035 in working capital (December 31, 2011: $18,030,398). As at the date of this report the Corporation has sufficient capital to fund the completion of the Origin Acquisition along with ongoing operations and planned capital expenditures for the next twelve months based on the current required exploration and development programs and current forecast cash flows from operations.

The Corporation is in the process of evaluating reserve-based borrowing facilities with potential lenders and, as at the date of the MD&A, has received multiple expressions of interest to establish a credit facility. Furthermore, the Corporation has advanced discussions with two New Zealand lenders and plans to make a decision about its leverage strategy shortly based on the indicative term sheet received from its preferred lender.

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.

Due to the nature of the oil and natural gas industry, budgets are regularly reviewed in light of the success of the expenditures and other opportunities which may become available to the Corporation. To the extent required, the Corporation's current treasury and funds raised in the March 2012 financing will be used to fund any negative operating cash flows in future periods.

CASH FLOWS

Operating Activities

For the six-month period ended June 30, 2012 the Corporation generated a net income of $1,297,476 (2011: net loss of $2,920,513). Non-cash income statement amounts recorded during the period included $1,047,105 (2011: $1,000,000) in stock-based compensation, $2,442,280 (2011: $22,093) in depreciation and accretion, and $645,148 (2011: gain of $3,530) in additional items factoring a foreign exchange loss. Total reduction to non-cash working capital items during the period amounted to $1,973,209 (2011: $283,550) for aggregate cash provided by operating activities of $3,458,800 (2011: cash used in operating activities of $2,185,500).

Investing Activities

For the six-month period ended June 30, 2012, the Corporation incurred $18,998,670 (2011: $4,274,457) in expenditures on its resource properties. The majority of these costs included the well development activities on the Eltham and Ranui permits. The Corporation incurred $135,951 (2011: $326,927) in development of a proprietary database and $2,180,634 (2011: $67,912) for the purchase of property and equipment. The Corporation paid an additional $5,075,000 (2011: withdrawal of $3,074) in deposits of which $5,000,000 related to the Origin Acquisition. Total cash used in investing activities for the period was $26,390,255 (2011: $4,666,223).

Financing Activities

For the six-month period ended June 30, 2012, financing activities provided $59,325,205 (2011: $5,990,000). Cash provided from financing activities was the result of the completion of the Corporation's March 2012 financing for gross proceeds of $63,480,000.

USE OF PROCEEDS

On August 3, 2011, NZEC closed its initial public offering for gross proceeds of $20,000,000, with a subsequent over-allotment for additional proceeds of $1,910,500. With respect to planned expenditures set out in the Initial Prospectus related to the initial public offering, as at the date of filing this MD&A, the Corporation had incurred 100% of the intended expenditures across its Eltham, Alton, Castlepoint and Ranui permits, as disclosed within the prospectus, and has allocated the excess working capital toward the Origin Acquisition. No expenditures have been incurred on the East Cape Permit as the Corporation is still awaiting approval of the grant of the East Cape Permit.

On March 21, 2012, NZEC completed another financing for gross proceeds of $63,480,000. The intended use of proceeds from the March financing, as amended, is shown below:

Property	**Operation**	**Anticipated use of proceeds in the Prospectus $**	**Current anticipated use of proceeds $**
Taranaki Basin			
Eltham Permit	• Drill and case six wells • Complete three wells • Provision for two additional production facilities and gas conservation	26,000,000	26,000,000
Alton Permit	• Collection and processing of 3D seismic data • Drill and case two wells	6,120,000	6,120,000
East Coast Basin			
Castlepoint Permit	• Conduct 2D seismic surveys • Drill one exploration well	6,100,000	1,100,000
Ranui Permit	• Conduct 2D seismic surveys	1,250,000	1,250,000
Unallocated working capital to assist in completing the Origin Acquisition.		19,610,760	24,610,760
		59,080,760	**59,080,760**

RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

The key management personnel include the directors and other officers of the Corporation. Key management compensation consists of the following:

	Three months ended June 30, 2012 $	**Three months ended June 30, 2011 $**	**Six months ended June 30, 2012 $**	**Six months ended June 30, 2011 $**
Salary and management fees	354,000	344,850	728,150	548,850
Share-based compensation	627,835	-	1,398,488	1,000,000

Related party balances arising from purchases of goods and services resulted in the following amounts due to related parties:

	June 30, 2012 $	December 31, 2011 $
Wexford Energy Ltd.("Wexford"), a private company controlled by the President	-	22,400
J. Proust & Associates Inc.("JPA"), a private company controlled by the Chief Executive Officer ("CEO")	-	-
Others	5,072	20,316
	5,072	42,716

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. The related party balances have no fixed payment term and bear no interest.

When the initial permit applications were made by the Corporation for the Castlepoint and East Cape permits, certain directors of the Corporation provided personal financial guarantees to make sufficient resources available to East Coast Energy Ventures Limited and ECEV II Limited if those companies did not have sufficient resources to pay any fees or other amounts due under the Crown Mineral Act 1991 and regulation thereunder, or to perform any obligations under the Castlepoint Permit and the East Cape Permit work programs. On April 24, 2012, the Corporation received notification that New Zealand Petroleum & Minerals has released the directors from their personal guarantees, in favour of replacement guarantees from the Corporation.

Employment and Consulting Agreements

The Corporation has entered into an amended and restated consulting agreement dated July 13, 2011 with the CEO 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 the CEO commencing November 12, 2010;

b. $46,000 (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.

Amounts paid to JPA were included in salary and management fees other than some immaterial amounts related to administrative services.

The Corporation has entered into an amended consulting agreement with Wexford and the President, pursuant to which it has agreed to pay Wexford $20,000 (plus HST) per month for management services provided to the Corporation.

The Corporation has entered into an employment agreement effective December 19, 2011 with the General Manager Upstream Operations (the "GMUO"), pursuant to which it has agreed to pay the GMUO $15,000 (plus HST).

The Corporation has entered into an employment agreement effective March 1, 2012 with the Chief Operating Officer (the "COO"), pursuant to which it has agreed to pay the COO $15,000 per month for management services provided to the Corporation.

ESCROWED SHARES AND TRADING SUMMARY

Escrowed Shares

In accordance with a lock-up agreement, an escrow agreement and a pooling agreement, 46,394,334 common shares owned or controlled by certain directors and officers of the Corporation were escrowed at August 3, 2011. The shares will be released over 36 months from August 3, 2011 as follows:

Release date	Number of common shares
August 3, 2011	200,000 (released)
February 3, 2012	300,000 (released)
July 19, 2012	5,853,934 (released)
August 3, 2012	6,773,400 (released)
February 3, 2013	8,851,200
August 3, 2013	8,851,200
February 3, 2014	8,851,200
August 3, 2014	6,713,400
Total	46,394,334

Trading Summary

	Price Range ($)		
Period	**High**	**Low**	**Volume**
August (4 – 31), 2011	1.39	0.93	3,566,048
September 2011	1.77	1.03	8,765,348
October 2011	1.24	0.95	3,715,769
November 2011	1.10	0.93	2,670,892
December 2011	1.18	0.91	4,339,356
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 1 to August 28, 2012	2.26	1.59	6,582,163

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

The Corporation's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow risk, interest rate risk and price risk), credit risk, and liquidity risk. The Corporation's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Corporation.

This note presents information about the Corporation's exposure to each of these risks, the Corporation's objectives and processes for measuring and managing risk, and the Corporation's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework.

Credit Risk

Credit risk is the risk of potential loss to the Corporation if the counterparty to a financial instrument fails to meet its contractual obligations. The Corporation's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and amounts receivable.

Cash and cash equivalents consist of cash deposits that are primarily held with a Canadian chartered bank. All of the Corporation's production is sold directly to a major oil company. The Corporation has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition.

The carrying value of the Corporation's cash and cash equivalents and accounts and other receivables represent the maximum exposure to credit risk. There were no significant amounts past due or impaired as at June 30, 2012.

Liquidity Risk

Liquidity risk is the risk that the Corporation will not be able to meet its work commitments and other financial obligations as they fall due. The Corporation ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Corporation's holdings of cash and cash equivalents.

Foreign Exchange Risk

Foreign exchange rate risk is the risk that future cash flows, net income and comprehensive income will fluctuate as a result of changes in foreign exchange rates. All of the Corporation's petroleum sales are denominated in United States dollars and operational and capital activities related to our properties are transacted primarily in New Zealand dollars and/ or United States dollars with some costs also being incurred in Canadian dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its cash and cash equivalents which bear a floating rate of interest. Sensitivity to a plus or minus 1% change in interest rate would affect the results of operations for the period ended June 30, 2012 by approximately $522,000.

The Corporation has no debt which carries interest rate risk.

Price Risk

Price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices, affecting results of operations and cash generated from operating activities. Such prices may also affect the value of resource properties and the level of spending for future activities. Prices received by the Corporation for its production are largely beyond the Corporation's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Corporation's oil production is sold at spot rates exposing the Corporation to the risk of price movements.

Fair Value

The carrying value of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and due to related parties are considered to be a reasonable approximation of fair value because of the short-term maturity of these instruments.

SHARE CAPITAL

The Corporation's authorized share capital consists of an unlimited number of voting common shares. As at June 30, 2012, the Corporation had 121,769,105 common shares outstanding.

As of the date of this MD&A, the Corporation's share capitalization included 121,769,105 common shares, 657,315 advisor warrants and 7,362,000 stock options for a fully-diluted capitalization of 129,788,420.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting. Any system of internal control over financial reporting, no matter how well designed, has inherent limitations. Therefore, even those systems determined to be effective can provide assurance with respect to financial statement preparation and presentation.

Management have overseen the design and evaluation of internal controls over financial reporting and have concluded that the design and operation of these internal controls over financial reporting were effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

RISK FACTORS

Natural resources exploration and development involves a number of risks and uncertainties, many of which are beyond management's control. The Corporation'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 Corporation's operations are primarily outside of Canada and are subject to risks arising from foreign exchange and foreign regulatory regimes.

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 Corporation 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.