NEW ZEALAND ENERGY CORP.

Third Quarter 2012
Management's Discussion and Analysis

September 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 "Company") for the year ended December 31, 2011, and the unaudited condensed consolidated interim financial statements for the period ended September 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 unaudited condensed consolidated interim financial statements, are presented in accordance with IFRS. This MD&A is prepared as of November 29, 2012 and includes certain statements that may be deemed "forward-looking statements" (see Forward-looking Information). 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 Company's website at www.newzealandenergy.com.

DESCRIPTION OF BUSINESS

NZEC, through its wholly-owned subsidiaries (collectively "NZEC" or "the Company") is engaged in the production, exploration and development of oil and natural gas resources in New Zealand's North Island. NZEC has drilled and evaluated eight exploration wells in the Taranaki Basin. Four wells are currently in production, completion is underway at one well, two wells are suspended pending future evaluation and one well was not successful. NZEC plans to drill five more conventional wells by the end of Q1-2013 and is finalizing its exploration plans for the balance of 2013, which is expected to include additional wells in the Taranaki Basin and East Coast Basin.

The Company's major assets are located in the Taranaki Basin and East Coast Basin of New Zealand's North Island and consist of four granted Petroleum Exploration Permits ("PEPs"), two PEPs pending approval, and four Petroleum Mining Licenses ("Petroleum Licenses") pending closing of an acquisition.

In the Taranaki Basin, NZEC holds a 100% interest in PEP 51150 (the "Eltham Permit") and a 50% interest in PEP 51151 (the "Alton Permit"). NZEC has completed the obligations required to increase its interest in the Alton permit from 50% to 65%, and will receive the 15% increase once the transfer is approved by New Zealand Petroleum & Minerals ("NZPAM"). In addition, NZEC has entered into an agreement (subject to satisfaction of certain conditions) 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 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 Q1-2013, subject to certain conditions precedent.

In the East Coast Basin, NZEC holds 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 NZPAM. The application for the East Cape Permit is uncontested and the Company expects the permit to be granted upon completion of NZPAM's review of the application. In addition, NZEC has entered into a binding agreement with Westech Energy New Zealand ("Westech"), a wholly-owned subsidiary of Energy Corporation of America, to acquire 80% ownership and become operator of PEP 38346 (the "Wairoa Permit"), covering 267,862 acres. Transfer of the 80% ownership and operatorship of the permit, formation of a joint venture with Westech, and proposed amendments to the work program are subject to approval by NZPAM.

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 in the country is derived from the Taranaki Basin in conventional targets using mostly vertical wells. Despite highly prospective geology and more than 50 years of oil and gas production from significant onshore and offshore discoveries, 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.

To date NZEC has largely been focused on amassing a large, world-class portfolio of conventional and unconventional exploration assets. With the help of key in-country executives, NZEC has built an unrivalled New Zealand technical team and established invaluable partnerships and business relationships with local groups. NZEC has completed a number of important milestones in 2012, including commercializing three oil discoveries at Copper Moki, booking reserves for the Company and generating positive cash flow through exploration success. Completion of the Eltham/Alton 100 km^2 3D seismic program has increased NZEC's drilling inventory and further defined the Company's future exploration targets. The current eight-well program initiates a phase of continuous drilling based upon NZEC's geological model, and the recently announced Waitapu-2 discovery is the first demonstration of repeatability in the Mt. Messenger formation. Insight gained from the 2012 3D seismic program and the additional 3D-defined acreage to be acquired from Origin Energy will provide NZEC with multiple years of de-risked exploration inventory. NZEC's primary focus for the balance of 2012 and into 2013 is the conversion of this inventory into production, cash flow and long-term reserve value.

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"), an 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 is working closely with Ngati Ruanui as exploration and development proceeds in the Taranaki Basin, and also communicates regularly with a number of iwi groups in the East Coast Basin to discuss the Company's exploration and development plans. NZEC is committed to meeting the highest environmental standards and bringing long-term benefits to the communities in which it works.

NZEC's near-term exploration and production activities are focused in the Taranaki Basin, with four 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 shallower Urenui formation and the deeper 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.

FINANCIAL SNAPSHOT

	For the three months ended September 30, 2012	For the three months ended June 30, 2012	For the three months ended March 31, 2012	For the year ended December 31, 2011
Production	37,850 bbl*	55,226 bbl*	39,852 bbl*	11,623 bbl*
Sales	38,565 bbl	58,952 bbl	34,659 bbl	9,567 bbl
Price	100.93 $/bbl	105.28 $/bbl	117.94 $/bbl	106.83 $/bbl
Production costs	32.58 $/bbl	22.14 $/bbl	22.25 $/bbl	23.44 $/bbl
Royalties	4.77 $/bbl	5.02 $/bbl	5.16 $/bbl	4.96 $/bbl
Field netback	63.58 $/bbl	78.12 $/bbl	90.53 $/bbl	78.43 $/bbl
Revenue	3,708,254	5,910,993	3,908,683	974,517
Preproduction recoveries	-	759,280	1,351,630	950,440
Total comprehensive (loss) income	(2,018,634)	1,317,915	799,032	(6,655,829)
Interest income	41,377	140,315	18,311	119,583
(Loss) earnings per share - basic	(0.02)	0.01	0.00	(0.08)
(Loss) earnings per share - diluted	(0.02)	0.01	0.00	(0.08)
Current assets	49,680,292	59,205,659	76,167,931	19,293,345
Total assets	98,882,087	98,814,102	96,979,923	31,152,804
Total liabilities	6,518,365	5,737,495	6,017,299	1,383,376
Shareholders' equity	92,363,722	93,076,607	90,962,624	29,769,428

	Summary for the nine months ended September 30, 2012
Production	155,285
Sales	154,533
Average price	107.33 $/bbl
Average production costs	25.22 $/bbl
Average royalties	4.98 $/bbl
Average field netback	77.13 $/bbl

* The abbreviation bbl means barrel or barrels of oil.

During the three-month period ended September 30, 2012, the Company produced 37,850 barrels of oil from Copper Moki-1, Copper Moki-2 and Copper Moki-3 and sold 38,565 barrels for total revenues of $3,892,223, or $100.93 per barrel. Total recorded gross production revenue was $3,708,254. Production costs during the three-month period ended September 30, 2012 totalled $1,256,361, or $32.58 per barrel. After royalties of $4.77 per barrel, NZEC generated a field netback of $63.58 per barrel during the third quarter. NZEC calculates the netback as the oil sale price less fixed and variable operating costs and a 5% royalty. The decrease in the field netback compared to previous quarters is the result of fixed costs associated with operating three producing wells in Q3 compared to two wells in Q2 and one well in Q1, a lower average realized oil price in the quarter and natural well declines. During the three-month period ended September 30, 2012, fixed operating costs represented 81% of total production costs. Subsequent to the period end, NZEC has placed all three wells on artificial lift to optimize oil production with the expectation of increasing oil production rates. Artificial lift will also reduce production costs since the wells will require significantly reduced maintenance and manpower. As a result, NZEC expects that the fixed costs associated with producing each barrel of oil will be lower in future quarters, allowing the Company to reduce operating costs at the Copper Moki site.

The aggregate volume of oil produced during the nine-month period ended September 30, 2012, including production testing of Copper Moki-2 and Copper Moki-3, was 155,285 barrels with 154,533 barrels sold, taking into consideration the opening period inventory balances, resulting in positive cash flow from operations of $12,305,716. The average field netback during the nine-month period ended September 30, 2012 was $77.13 per barrel.

At November 29, 2012, the Company had $43.9 million in cash deposits, of which US$35 million has been placed on deposit in the Company's name to satisfy the balance of the purchase price of the Origin Agreement, as summarized below in Property Review – Origin Agreement. The Company has secured a US$34.5 million operating line of credit against the US$35 million deposit and to date has drawn down US$6.5 million.

RECENT DEVELOPMENTS

Subsequent to the period end, NZEC drilled and completed three exploration wells and announced a new oil discovery with the Waitapu-2 well, installed artificial lift on its three Copper Moki wells to optimize production rates, expanded its East Coast Basin exploration land package, increased its oil reserve estimates, and announced changes to its senior management team.

Production

During October and November NZEC installed artificial lift (pump jacks) on its three Copper Moki wells to optimize production rates. The wells had been flowing from natural reservoir pressure since commencing commercial production, which accounts for the well declines to date. Copper Moki-3's artificial lift was installed first, followed by Copper Moki-2 and Copper Moki-1. As expected, production rates have increased with the introduction of artificial lift, achieving a 103% increase compared to production rates at the end of the third quarter. While the Company is still optimizing pumping rates on all three wells to find the optimal production rate, where extraction closely balances inflow, management believes that current production rates are close to expected final optimized rates. The wells have collectively produced an average of 438 bbl/day and 770 mcf/day for the last seven days. Artificial lift should stabilize production with lower decline rates, allowing NZEC to start modelling long-term production rates and cash flow from the Copper Moki wells.

On November 26, 2012, NZEC announced its fifth oil discovery in the Taranaki Basin. The Waitapu-2 well was drilled to a total measured depth of 2,085 metres, encountering approximately 6.2 metres of net pay in the Mt. Messenger Formation, a thick sequence of turbidite sandstones in New Zealand's Taranaki Basin. At the time of the announcement the Waitapu-2 well was flowing at a rate of 325 barrels of oil per day and 800 thousand cubic feet of natural gas per day through a 24/64th inch choke. The well is producing ~40^{o} API oil that is being trucked to the Shell-operated Omata Tank Farm, approximately 45 km north of the site, and sold at Brent pricing. To date the Waitapu-2 well has produced 2,744 barrels of oil and will shortly be shut-in for pressure build-up.

Natural gas from the three Copper Moki wells is being delivered through NZEC's existing gas pipeline to the Waihapa Production Station. With current capability of approximately 1,500 mcf/day, NZEC's gas production does not meet the minimum threshold required to run the liquids extraction unit of the Waihapa Production Station. NZEC's gas is liquids rich and may require blending with third-party gas to reach New Zealand gas specifications.

Expanded Land Package

On October 9, NZEC announced that it had entered into a binding agreement with Westech to acquire 80% ownership and become operator of the Wairoa Permit in the East Coast Basin. In consideration for the transfer of the

80% interest, NZEC immediately assumed 100% responsibility for the permit and completion of the related work program and paid Westech US$725,000. Upon completion of the related work program, Westech will credit US$225,000 to NZEC and all future expenditures for the permit will be funded 80% by NZEC and 20% by Westech. Transfer of the 80% ownership and operatorship of the permit, formation of the joint venture, and proposed amendments to the work program are subject to approval by NZPAM.

Exploration

During October, NZEC drilled and commenced completion activities on the Waitapu-1 well on its Waitapu site, and on November 26 announced results from the well. Waitapu-1 was drilled to a measured depth of 2,213 metres, then cased and completed across a gross interval of 30 metres in the Mt. Messenger formation. While a significant sand interval was identified with oil and natural gas shows, the permeability and porosity was such that the well did not immediately yield economic production. The well has been suspended pending further evaluation and/or sidetrack to an alternate target.

During November, NZEC drilled the first of two wells on its Arakamu site. The Arakamu-2 well reached target depth at a measured depth of 2,380 metres. NZEC has commenced casing the well, with completion to follow. The well encountered 8.1 metres of net pay in two potentially productive zones in the Mt. Messenger formation. The lower zone will be completed first with the second zone to follow. The Company will announce results from the Arakamu-2 well once testing has yielded enough information for the Company to estimate the well's productive potential, with testing expected to commence in late November. Following completion of the Arakamu-2 well, NZEC will move the rig to spud Arakamu-1A, which is targeting the deeper Moki formation. NZEC plans to drill Arakamu-1A using the surface casing of the existing Arakamu-1 well, drilled by a previous permit holder in 2006.

Reserves

On October 24, NZEC announced an increase to its oil reserve estimates. AJM Deloitte prepared an interim reserve estimate and economic evaluation for the Company in accordance with National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities. The interim reserve estimate and economic evaluation was confined to NZEC's Eltham Permit and based on reservoir and production data from the Copper Moki-1, Copper Moki-2 and Copper Moki-3 wells, with an effective date of September 30, 2012. The evaluation resulted in a 150% increase to Proved + Probable ("2P") reserves compared to the December 2011 estimate, and a 73% increase to the 2P pre-tax net present value (10% discount). NZEC's marketable oil and gas reserves are estimated at 450,400 bbl and 625,600 bbl of 2P and 3P (Proved + Probable + Possible), respectively, or 706,400 boe and 985,000 boe of 2P and 3P reserves, respectively.

Marketable Oil and Gas Reserves
As at September 30, 2012
Forecast Prices and Costs

Reserves Category	Light & Medium Oil (Mbbl)	Natural Gas (MMcf)	Natural Gas Liquids (Mbbl)	Barrels Oil Equivalent (Mboe)
Proved Developed Producing	203.8	493.1	32.0	318.1
Proved Undeveloped	95.8	202.8	13.2	142.7
Total Proved	**299.6**	**695.9**	**45.2**	**460.8**
Probable	150.8	409.0	26.6	245.5
Proved + Probable	**450.4**	**1,104.9**	**71.8**	**706.4**
Possible	175.2	446.3	29.0	278.6
Proved + Probable + Possible	**625.6**	**1,551.2**	**100.8**	**985.0**

Notes: Mbbl – thousand barrels of oil. MMcf – million cubic feet of natural gas. Mboe – thousand barrels of oil equivalent using a conversion ratio of 6 Mcf : 1 bbl. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. The boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Possible reserves are those additional reserves that are less certain to be recovered than probable reserves. There is a 10% probability that the quantities actually recovered will equal or exceed the sum of proved plus probable plus possible reserves. See Cautionary Note Regarding Reserve Estimates.

Net Present Value of Future Net Revenue
Before Tax
As at September 30, 2012
Forecast Prices and Costs

	Net Present Value of Future Net Revenues Before Tax, Discounted at % per year						
Reserves Category	**0% ($'000)**	**5% ($'000)**	**8% ($'000)**	**10% ($'000)**	**15% ($'000)**	**20% ($'000)**	**Unit Value 10% ($/boe)**
Proved Developed Producing	8,978.2	8,236.0	7,841.0	7,596.5	7,043.9	6,563.9	23.9
Proved Undeveloped	6,378.1	6,005.0	5,795.8	5,662.3	5,349.1	5,063.7	39.7
Total Proved	**15,356.3**	**14,241.0**	**13,636.8**	**13,258.8**	**12,393.0**	**11,627.6**	**28.8**
Probable	10,448.2	8,789.8	7,977.6	7,499.0	6,484.5	5,677.4	30.5
Proved + Probable	**25,804.6**	**23,030.8**	**21,614.4**	**20,757.8**	**18,877.5**	**17,305.0**	**29.4**
Possible	12,307.5	9,550.0	8,313.7	7,621.4	6,243.1	5,233.3	27.4
Proved + Probable + Possible	**38,112.1**	**32,580.8**	**29,928.1**	**28,379.2**	**25,120.6**	**22,538.3**	**28.8**

Senior Management Change

On November 1, NZEC announced the decision to move the Chief Financial Officer role to New Zealand to allow for closer interaction with the Company's technical and accounting teams. John Hudson, NZEC's Group Financial Controller located in New Plymouth, New Zealand, has assumed the role of interim Chief Financial Officer while the Company conducts an executive search for a New Zealand based Chief Financial Officer.

NZEC has appointed Gerrie van der Westhuizen as Vice President, Finance. Mr. Van der Westhuizen will be based in the Company's head office in Vancouver, Canada, and will oversee the Company's regulatory financial reporting and maintain the appropriate internal controls over financial reporting. In addition, Mr. Van der Westhuizen will assist the New Zealand operations team on matters related to corporate finance, treasury management, the implementation of the appropriate enterprise resource planning ("ERP") software and enhancing various business process controls. Mr. Van der Westhuizen is a Chartered Accountant, designated in Canada and South Africa, with considerable experience in the natural resource industry, having been involved with organizations producing base, precious and alternative metals and minerals. Mr. Van der Westhuizen has held progressively senior positions within public accounting and industry and garnered significant experience in statutory reporting, including executing multiple IFRS conversion projects and championing SOX404 initiatives, equity offerings and IPOs. He has also been responsible for treasury management within complex debt structures and has managed multi-jurisdictional tax compliance and the implementation of fully integrated multi-currency ERP systems.

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, with total production of approximately 130,000 boe/day 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 Energy Limited ("L&M"). The Alton Permit covers approximately 119,204 onshore acres (482 km^2). In the first quarter of 2012, NZEC entered into a farm-in agreement with L&M pursuant to which the Company has earned an additional 15% interest in the Alton Permit, increasing the Company's interest from 50% to 65%, subject to approval of the transfer by NZPAM.

NZEC also expects to acquire four Petroleum Licenses and the Waihapa Production Station upon completion of the acquisition of assets from Origin Energy Resources NZ (TAWN) Limited, as outlined below in the Origin Agreement.

<u>Production</u>

NZEC has made five oil discoveries in the Taranaki Basin. Copper Moki-1 has been producing from the Mt. Messenger formation since December 10, 2011. Copper Moki-2 has been producing from the Mt. Messenger formation since April 1, 2012. Copper Moki-3 has been producing from 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. The wells had flowed from natural reservoir pressure until October 2012, when NZEC began installing artificial lift (pump jacks) to optimize and stabilize production rates. All three wells are now producing with artificial lift and produced at an average rate of 438 bbl/day and 770 mcf/day over the last seven days. The wells have collectively produced more than 193,174 barrels of oil to date.

Copper Moki-4 discovered oil in the Urenui formation, which is shallower than the Mt. Messenger formation and produces heavier oil (~29^{o} API) with a higher pour point than oil produced from the Mt. Messenger formation. 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.

The Waitapu-2 well was drilled to a total measured depth of 2,085 metres, encountering approximately 6.2 metres of net pay in the Mt. Messenger formation. At November 26 the Waitapu-2 well was flowing at a rate of 325 barrels of oil per day and 800 thousand cubic feet of natural gas per day through a 24/64th inch choke. The well is producing ~40^{o} API oil that is being trucked to the Shell-operated Omata Tank Farm, approximately 45 km north of the site, and sold at Brent pricing. To date the Waitapu-2 well has produced 2,744 barrels of oil and will shortly be shut-in for pressure build-up.

Natural gas from the three Copper Moki wells is being delivered through NZEC's existing gas pipeline to the Waihapa Production Station. With current production of approximately 1,540 mcf/day, NZEC's gas production does not meet the minimum threshold required to run the liquids extraction unit of the Waihapa Production Station. NZEC's gas is liquids rich and may require blending with third-party gas to reach New Zealand gas specifications.

Exploration

In the second half of 2012 NZEC has drilled three exploration wells and expects to drill a fourth by year-end, as part of its current eight-well program. Two wells targeting the Mt. Messenger formation were drilled on the Waitapu site, located approximately 1.3 km south of the Copper Moki site. The Waitapu-2 well has been advanced to production. The Waitapu-1 well encountered a significant sand interval with oil and natural gas shows; however, the permeability and porosity was such that the well did not immediately yield economic production. The well has been suspended pending further evaluation and/or sidetrack to an alternate target. One well targeting the Mt. Messenger formation has been drilled on the Arakamu site, located approximately 3.8 km southwest of Copper Moki and 2.5 km south of Waitapu. The Arakamu-2 well reached target depth in November at a measured depth of 2,380 metres and NZEC has commenced casing the well, with completion to follow. The well encountered 8.1 metres of net pay in two potentially productive zones in the Mt. Messenger formation. The lower zone will be completed first with the second zone to follow. Following completion of the Arakamu-2 well, NZEC will move the rig to spud Arakamu-1A, which is targeting the deeper Moki formation.

Origin Agreement

In May 2012, the Company entered into an 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 Licenses totalling 26,907 acres 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 Company 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 Q1-2013. Closing of the Acquisition is contingent on receiving approval from NZPAM and the New Zealand Overseas Investment office, Origin completing recommissioning of the liquids extraction unit of the Waihapa Production Station, 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.

NZEC has made significant progress toward meeting the conditions precedent to close the acquisition. The regulatory authority has recertified the Waihapa Production Station for operation and recommissioning of the liquids extraction unit is underway. Restart and steady operation of the plant is dependent on raw gas availability. NZEC has lodged the appropriate applications with the New Zealand Overseas Investment Office, has received conditional approval from the TSX Venture Exchange, and is finalizing commercial arrangements with Contact (regarding the Ahuroa gas storage facility) and Origin.

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, Tikorangi and Kapuni formations. The Petroleum Licenses are permitted and renewable without relinquishment, subject to government approval. Included are 16 established drill pads, most with gathering pipelines 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. NZEC believes that six of the previously drilled wells have uphole completion potential in NZEC's target formations.

NZEC's technical team continues to review the 3D seismic and well log data covering the southern half of the Petroleum Licenses and has identified 8 Urenui leads, 18 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 3 km from NZEC's Copper Moki site and is central to NZEC's inventory of exploration prospects and is expected to reduce 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, in addition to ensuring NZEC's ability to process its own production, 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/day gas processing, gas compression and liquids extraction unit;
- 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/day 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/day; and
- an 18,000 bbl/day water disposal processing system.

East Coast Basin

The East Coast Basin of New Zealand's North Island hosts two highly prospective oil 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 Company expects the East Cape Permit to be granted to NZEC upon completion of NZPAM'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. In addition, NZEC has entered into a binding agreement with Westech to acquire 80% ownership and become operator of the Wairoa Permit, which covers approximately 267,862 onshore acres (1,084 km^2) south of the East Cape Permit.

NZEC has completed the coring of two test holes on the 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 the 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, and is interpreting the data to finalize targets for exploration in 2013.

The Wairoa Permit has been actively explored for many years, with significant 2D seismic data across the permit and log data from more than 15 wells drilled on the property. Historical exploration focused on the conventional Miocene sands. NZEC's technical team sees conventional opportunities as well as potential in the unconventional oil shales that underlie the property. NZEC's team knows the property well and provided extensive consulting services (through the consulting company Ian R Brown Associates) to previous permit holders, assisting with seismic acquisition and interpretation, wellsite geology and regional prospectivity evaluation. In addition, NZEC's team assisted with permitting and land access agreements and worked extensively with local district council, local service providers, land owners and iwi groups, allowing the team to establish an excellent relationship with local communities.

OUTLOOK

NZEC plans to complete its current eight-well program by the end of Q1-2013 and is finalizing its exploration plans for the balance of 2013. NZEC plans to fund its exploration program and corporate activities using existing capital and cash flow from producing wells. To provide additional financial flexibility, NZEC has advanced discussions with a potential lender regarding a debt facility and signed a facility mandate letter. A facility is anticipated to be based partly on NZEC's reserves and partly on the value of the Company's assets.

Taranaki Basin

With four wells in production, NZEC is focused on growing reserves, production and cash flow. NZEC is permitting a number of new drill pads to provide exploration optionality as the Company advances toward its objective of increasing production to 3,000 boe/day by the end of Q1-2013.

With eight wells drilled in the Taranaki Basin to date and the log data from wells drilled on the Petroleum Licenses, 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 Company has also identified exploration targets in the deeper Tikorangi and Kapuni formations.

On its Eltham and Alton permits in the Taranaki Basin, NZEC has identified 18 prospects on 3D seismic and is continuing to refine its inventory as the technical team interprets data from the recently acquired 100 km^2 3D seismic survey. Data collected across 50 km^2 of the Eltham permit are being interpreted first, and have revealed sizable prospects in the Mt. Messenger, Moki, Tikorangi and Kapuni formations. One identified Moki prospect is estimated to cover an area of 1km by 2km and has become a priority drill target for NZEC's 2013 exploration campaign. Continued interpretation and modelling of the 3D seismic survey will further define existing prospects and reduce drilling risk while potentially identifying new exploration leads and expanding NZEC's inventory of drill locations for its 2013 exploration program.

In addition, new exploration leads and uphole completion opportunities on the Petroleum Licenses to be acquired from Origin would further expand NZEC's drilling 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 Company's Eltham and Alton prospects to plan future exploration programs.

Exploration in 2013 is expected to include additional wells on the Eltham and Alton permits along with potential targets on the Petroleum Licenses, subject to completion of the Acquisition as outlined in the Origin Agreement.

NZEC has lodged bids for new onshore exploration properties in the Taranaki Basin as part of the annual New Zealand Block Offer. The properties were chosen based on a prospectivity review using NZEC's 3D seismic database and synergies with NZEC's existing properties and the Waihapa Production Station. The blocks will be awarded in December following a review of the bids by NZPAM. Following the confirmation of any additional blocks awarded to the Company, NZEC's technical team will evaluate and prioritize these targets in the context of its drill program for 2013 and future years.

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 have advanced 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, is focusing NZEC's exploration strategy for the East Coast shales.

The Company's application for the East Cape Permit is uncontested and NZEC expects the permit to be granted upon completion of NZPAM's review of the application.

The pending acquisition of an 80% interest in the Wairoa Permit, subject to NZPAM approval, will bring additional exploration opportunities to the Company. As part of the acquisition, NZEC has proposed a revised work program, which is subject to approval by NZPAM. The proposed work program requires NZEC to complete various technical studies, reinterpret existing seismic data, shoot and interpret additional 2D seismic, and drill two exploration wells by March 2016. NZEC has the option to withdraw from the joint venture after drilling the first exploration well, in which case it would transfer ownership and operatorship of the permit back to Westech. NZEC's technical team knows the property well and sees conventional opportunities as well as potential in the unconventional oil shales that underlie the property.

NZEC plans to drill one exploration well on both the Ranui and Castlepoint permits in 2013 and is finalizing drill locations. NZEC also plans to complete additional 2D seismic surveys across the East Coast permits in 2013, and will finalize its exploration plans for the Wairoa Permit after reviewing all of the seismic and well log data. Details on minimum work program requirements are outlined below in Permit Expenditure Requirements.

SUMMARY OF QUARTERLY RESULTS

	2012 Q3 $	2012 Q2 $	2012 Q1 $	2011 Q4 $
Total assets	98,882,087	98,814,102	96,979,923	31,152,804
Exploration and evaluation assets	26,377,188	25,373,718	12,103,712	6,052,699
Property, plant and equipment	16,293,123	8,674,152	8,150,802	5,509,511
Working capital	45,204,695	53,844,035	70,401,191	18,030,398
Revenues	3,708,254	5,910,993	3,908,683	974,517
Accumulated deficit	(17,804,045)	(15,613,594)	(16,548,180)	(16,911,070)
Total comprehensive (loss) income	(2,018,634)	1,317,915	799,032	(1,258,314)[1]
Basic (loss) earnings per share	(0.02)	0.01	0.00	0.01
Diluted (loss) earnings per share	(0.02)	0.01	0.00	0.01

	2011 Q3 $	2011 Q2 $	2011 Q1 $	2010 Q4 $
Total assets	33,566,611	10,683,239	11,491,806	6,301,322
Resource properties	9,509,095	4,641,525	3,161,561	60,222
Property, plant and equipment	63,421	68,366	65,721	-
Working capital	18,699,022	5,333,999	7,596,329	5,857,692
Revenues	-	-	-	-
Accumulated deficit	(17,057,134)	(13,258,649)	(12,168,826)	(10,338,136)
Total comprehensive loss	(4,279,538)	(773,524)	(1,878,754)	(10,338,136)
Basic (loss) earnings per share	(0.04)	(0.01)	(0.03)	(0.24)
Diluted (loss) earnings per share	(0.04)	(0.01)	(0.03)	(0.24)

[1] During the fourth quarter of fiscal 2011, the Company 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 Company in lieu of the services performed and substantial financial guarantees provided to assist in obtaining the legal rights to the Castlepoint and East Cape PEPs within the East Coast Basin. The Company 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 Company 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 $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 Company 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 Company 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 Company completed the acquisition of its Ranui permit for US$1,000,000 and the issuance of 1,000,000 common shares.

In Q1-2012, the Company continued its development plans by drilling Copper Moki-2 and Copper Moki-3 and positioned itself to drill Copper Moki-4 in Q2-2012. Following the successful completion of Copper Moki-2, the well reached commercial 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 and reached commercial production at the commencement of Q3-2012. In addition, the Company 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 Company also entered into the Origin Agreement with Origin to acquire upstream and midstream assets for $42 million in cash, payable in the US$ equivalent of US$40.6 applying a fixed C$/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 Q1-2013. During Q3-2012, the Company continued its progress towards closing the Origin Agreement, as well as a proposed debt financing, and commenced drilling the first of eight wells planned for the current drill program. The production of oil as a result of natural flow from Copper Moki-1, Copper Moki-2 and Copper Moki-3 declined during the third quarter and the Company is currently optimizing the production from these wells by means of artificial lift.

Since the Company'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 SEPTEMBER 30, 2012

Revenue

During the three-month period ended September 30, 2012, the Company produced 37,850 barrels of oil and sold 38,565 barrels for total revenues of $3,892,223, or $100.93 per barrel. Total recorded gross production revenue was $3,708,254, which accounted for royalties of $183,969, or $4.77 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 September 30, 2012 totalled $1,256,361 or $32.58 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. During the three-month period ended September 30, 2012, fixed operating costs represented 81% of total production costs, thus giving rise to lower field netbacks in light of the reduced oil production. However, the Company is in the process of establishing permanent facilities at several of its wells, some of which will be unmanned, which will allow the Company to reduce the level of fixed operating costs in future. No production costs were incurred during the same period in fiscal 2011.

Depreciation and accretion costs incurred during the three-month period ended September 30, 2012 totalled $777,290, or $20.16 per barrel of oil sold. Depreciation is calculated 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 September 30, 2012 totalled $329,981 compared to $663,997 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 Company upon completion of the Company's initial public offering in August 2011, and subsequent grants to new employees.

General and administrative expenses for the three-month period ended September 30, 2012 totalled $1,004,070 compared to $619,690 incurred in the same period in fiscal 2011. The increase in general and administrative costs corresponds to increases in professional fees, travel and promotion expenses, as well as administrative expenses, as the Company continues to support the expanding operations of its New Zealand-based subsidiaries.

Transaction costs for the three-month period ended September 30, 2012 totalled $282,658 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 Agreement, which are expensed as they are incurred in relation to the anticipated business combination.

Finance income for the three-month period ended September 30, 2012 totalled $41,377 compared to $27,586 in the same period in fiscal 2011. Finance income relates to interest earned on the Company's cash and cash-equivalent balances held in treasury.

Foreign exchange loss for the three-month period ended September 30, 2012 amounted to $1,085,551 compared to a $9,581 gain realized in the same period of fiscal 2011. The foreign exchange losses incurred in the current year are a result of the strengthening of the Canadian dollar against the US dollar, during a period that the Company held significant US dollar cash balances in anticipation of completion of the Origin Agreement.

Deferred income taxes for the three-month period ended September 30, 2012 amounted to $1,204,171 compared to $Nil in the same period in fiscal 2011. The deferred income taxes largely relate to a temporary difference between the accounting and tax bases of resource properties.

Total Comprehensive Loss

Total comprehensive loss for the three-month period September 30, 2012 totalled $2,018,634 after taking into account a foreign translation reserve gain of $171,817 on the translation of foreign operations and monetary items that form part of NZEC's net investment in foreign operations. This compares favourably to a total comprehensive loss for the three-month period ended September 30, 2011 of $4,279,539.

Based on a weighted average shares outstanding balance of 121,769,105 the Company realized a $0.02 basic and diluted loss per share for the three-month period ended September 30, 2012. During the three-month period ended September 30, 2011, the Company realized a $0.04 basic and diluted loss per share, based on a weighted average share balance of 90,999,480.

RESULTS OF OPERATIONS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2012

Revenue

During the nine-month period ended September 30, 2012, the Company produced 132,928 barrels of oil and sold 132,176 barrels for total revenues of $14,186,648, or $107.33 per barrel. Total recorded gross production revenue was $13,527,930, which accounted for royalties of $658,718, or $4.98 per barrel sold. No revenues or royalties were recognized during the same period in fiscal 2011.

Expenses and Other Items

Production costs during the nine-month period ended September 30, 2012 totalled $3,333,122, or $25.22 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. During the nine-month period ended September 30, 2012, fixed operating costs represented 71% of total production costs, thus giving rise to lower field netbacks in light of the reduced oil production. However, the Company is in the process of establishing permanent facilities at several of its wells, some of which will be unmanned, which will allow the Company to reduce the level of fixed operating costs in future. No production costs were incurred during the same period in fiscal 2011.

Depreciation and accretion costs incurred during the nine-month period ended September 30, 2012 totalled $3,219,570, or $24.36 per barrel of oil sold. Depreciation is calculated 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 nine-month period ended September 30, 2012 totalled $1,337,086 compared to $1,663,997 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 Company upon completion of the Company's initial public offering in August 2011, and subsequent grants to new employees.

General and administrative expenses for the nine-month period ended September 30, 2012 totalled $3,272,823 compared to $2,551,440 incurred in the same period in fiscal 2011. The increase in general and administrative costs corresponds to increases in professional fees, travel and promotion expenses, as well as administrative expenses, as the Company continues to support the expanding operations of its New Zealand-based subsidiaries. The Company also incurred consulting fees as it refined its corporate strategies.

Transaction costs for the nine-month period ended September 30, 2012 totalled $483,437 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 Agreement, which are expensed as they are incurred in relation to the anticipated business combination.

Finance income for the nine-month period ended September 30, 2012 totalled $200,003 compared to $54,262 in the same period in fiscal 2011. Finance income relates to interest earned on the Company's cash and cash-equivalent balances held in treasury.

Foreign exchange loss for the nine-month period ended September 30, 2012 amounted to $1,730,699 compared to a $13,110 gain realized in the same period of fiscal 2011. The foreign exchange losses incurred in the current year are a result of the strengthening of the Canadian dollar against the US dollar, during a period that the Company held significant US dollar cash balances in anticipation of completion of the Origin Agreement.

Deferred income taxes for the nine-month period ended September 30, 2012 amounted to $1,204,171 compared to $Nil in the same period in fiscal 2011. The deferred income taxes largely relate to a temporary difference between the accounting and tax bases of resource properties.

Total Comprehensive Income (Loss)

Total comprehensive income for the nine-month period September 30, 2012 totalled $98,313 after taking into account a foreign translation reserve gain of $991,288 on the translation of foreign operations and monetary items that form part of NZEC's net investment in foreign operations. This compares favourably to a total comprehensive loss for the nine-month period ended September 30, 2011 of $6,931,816.

Based on a weighted average shares outstanding balance of 115,513,777 the Company realized a $0.01 basic and diluted loss per share for the nine-month period ended September 30, 2012. During the period ended September 30, 2011, the Company realized a $0.08 basic and diluted loss per share, based on a weighted average share balance of 80,116,119.

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

Taranaki Basin

During the period ended September 30, 2012, the Company incurred $25,509,370 in exploration and evaluation expenditures on its Taranaki Basin permits. Upon the Copper Moki-2 and Copper Moki-3 wells being advanced to commercial production, the Company transferred $9,272,636 of historical accumulated expenditures, net of $2,110,910 in pre-production recoveries during the wells' start-up and testing phase, from exploration and evaluation properties to property, plant and equipment. The transferred amount is attributed to the respective wells as follows: Copper Moki-2: $2,766,733 (net of $1,351,630 in pre-production revenues realized on the sale of 14,827 barrels of oil); Copper Moki-3: $6,505,903 (net of $759,280 in pre-production revenues realized on the sale of 7,530 barrels of oil). Factoring the transfer of the Copper Moki-2 and Copper Moki-3 well costs, total exploration and evaluation assets relating to the Taranaki Basin permits increased $14,386,692 over the period to a cumulative balance of $16,864,527 as at September 30, 2012. The current year net increase may be attributed to additional exploration costs associated with the Eltham Permit ($11,027,609) and the Alton Permit ($5,532,469), respectively.

East Coast Basin

During the period ended September 30, 2012, the Company incurred $1,780,168 in capitalized exploration costs on the Castlepoint Permit. These exploration costs consist of $1,142,505 related to well development costs, $40,023 for stock-based compensation, $547,494 related to other overhead costs, and $50,146 arising from a foreign currency translation adjustment. Cumulative expenditures incurred as of September 30, 2012 relating to the Castlepoint Permit amounted to $2,839,873.

During the period ended September 30, 2012, the Company incurred $4,157,629 in capitalized exploration costs on the Ranui Permit, including $2,835,893 related to well development costs, $62,268 for stock-based compensation, $834,655 arising from other overhead costs, $328,929 related to asset retirement obligations, and $95,884 attributed to a foreign currency translation adjustment. As of September 30, 2012, the Company had incurred $6,672,788 in cumulative capitalized acquisition costs relating to the Ranui Permit.

The Company did not capitalize any exploration or acquisition costs relating to the East Cape Permit during the period ended September 30, 2012.

CAPITAL SPENDING

During the nine-month period ended September 30, 2012, property, plant and equipment expenditures increased to $19,937,348 before depreciation and depletion of $3,644,225. Expenditures included $404,678 for land, $580,932 for buildings, $2,839,299 for equipment and fixtures, $75,853 for computer equipment, $75,762 for furniture, $10,019,383 net of recoveries in oil and gas properties and a net of foreign currency translation and other adjustments of $116,764. The oil and gas properties presented as part of property, plant and equipment increased as a result of the transfer of the accumulated exploration and evaluation expenditures for the Copper Moki-2 and Copper Moki-3 well incurred to the point in time that the Company determined the economic viability of the Copper Moki-2 well (at the end of the first quarter) and the Copper Moki-3 well (at the beginning of the third quarter). Included in the accumulated balance transferred were well development costs of $10,965,706, asset retirement costs of $248,344, and allocated stock-based compensation of $169,496, offset by recoveries of $2,110,910 on oil produced and sold during the testing phase.

During the nine-month period ended September 30, 2012, exploration and evaluation assets increased by $20,324,489 to $26,377,188. The Company incurred $14,386,962 in exploration, evaluation and overhead costs associated with the Taranaki Basin, of which $11,027,609 related specifically to the Eltham Permit. The Company incurred $5,937,798 in exploration, evaluation and overhead costs associated with the East Coast Basin, of which $4,157,629 related specifically to the Ranui Permit.

COMMITMENTS

As at September 30, 2012, the Company had the following undiscounted contractual obligations:

	Less than 1 year ($'000)	1–3 years ($'000)	3–5 years ($'000)	Total ($'000)
Accounts payable	$4,461	$Nil	$Nil	$4,461
Operating lease obligations (1)	$75	$705	$444	$1,224
Contract and purchase commitments (2)	$3,048	$510	$25	$3,583
Minimum work program requirements (3)	$6,880	$32,260	$3,800	$42,940
Origin Agreement (4)	$35,169	$Nil	$Nil	$35,169
Environmental obligations (5)	$14	$898	$Nil	$912
Total	$49,647	$34,373	$4,269	$88,289

(1) The Company has office leases for its offices in Vancouver, Wellington and New Plymouth.
(2) The Company entered into several management and consulting agreements, some of which relate to services to be rendered in connection with exploration work programs commitments.
(3) The Company has committed to complete certain minimum work program requirements in order to maintain its various resource permits.
(4) The Company entered into the Origin Agreement whereby the Company would acquire Origin's Waihapa Production Station and four of Origin's Petroleum Licences in exchange for $42 million (US$40.6 million @ 1.0349 C$/US$). The Company has paid $5 million of the purchase price as a non-refundable deposit (Note 5) and will pay the balance upon completion of the Origin Agreement.
(5) The Company has recognized an undiscounted asset retirement obligation of $0.9 million.

PERMIT EXPENDITURE REQUIREMENTS

The Company undertakes oil and gas exploration and development activities and is contractually committed under various agreements to complete certain exploration activities.

The Company 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 Company'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 Company committing to the next stage of the permit term, where additional expenditure would be required.

As at the date of the MD&A, NZEC has materially satisfied its work commitments and obligations for 2012 and estimates that the following future expenditures will be required to complete the minimum work programs required to maintain its permits in good standing:

Properties	2012 ($'000)	2013 ($'000)	2014 ($'000)	2015 ($'000)	2016 ($'000)	Total ($'000)
Eltham Permit (1)	$Nil	$4,750	$Nil	$Nil	$Nil	$4,750
Alton Permit (2)	$Nil	$5,100	$Nil	$Nil	$Nil	$5,100
Castlepoint Permit (3)	$Nil	$6,200	$7,960	$7,960	$Nil	$22,120
Ranui Permit (4)	$Nil	$4,230	$100	$Nil	$Nil	$4,330
East Cape Permit (5)	$Nil	$300	$1,020	$1,520	$3,800	$6,640
Wairoa Permit (6)	TBD	TBD	TBD	TBD	TBD	TBD
	$Nil	$20,580	$9,080	$9,480	$3,800	$42,940

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 Company has a 100% working interest in the Eltham Permit. The 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 2012 has been met. In 2013 the Company is required to drill and evaluate two exploration wells during 2013, prepare various technical studies and reprocess 60 km^2 of 3D seismic data.

(2) The Minister of Energy approved the transfer of a 50% interest in the Alton Permit to the Company on October 4, 2011. In the first quarter of 2012, NZEC entered into a farm-in agreement with L&M pursuant to which the Company has earned an additional 15% interest in the Alton Permit, increasing the Company's interest from 50% to 65%, subject to approval of the transfer by NZPAM. The Alton 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 2012 has been met. In 2013 the Company is required to drill an exploration well and prepare two technical reports during 2013.

(3) The Company has a 100% working interest in the Castlepoint Permit. The permit was granted November 24, 2010 for a five-year term expiring November 24, 2015. The minimum work program for 2012 has been met. The minimum work program requirements for 2013 include drilling an exploration well and making a commitment to continue with the following year's work program.

(4) The Company has a 100% working interest in the Ranui Permit. The Minister of Energy approved the transfer of the Ranui Permit to the Company on June 27, 2011. The Ranui Permit was granted to the previous permit holder on June 28, 2004, and was subsequently extended to June 27, 2014. The minimum work program for 2012 has been met. The minimum work program requirements for 2013 include drilling an exploration well and the acquisition, processing and interpretation of 30 km of 2D seismic data.

(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.

(6) In the fourth quarter of 2012, the Company entered into a binding agreement with Westech to acquire 80% ownership and become operator of the Wairoa Permit. While acquisition of an 80% interest in the Wairoa Permit is subject to approval by NZPAM, NZEC assumed all permit obligations when the acquisition was announced in October 2012. Upon the approval of the acquisition, the minimum work program requirements to maintain the permit in good standing will be confirmed by NZPAM.

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 up to half of the area comprising the PEP at the time of the end of the first term.

The Company may engage in technical work and exploration and development activities that exceed the minimum work program requirements for some or all of its permits. The activities planned for the permits in 2013 are outlined in the Outlook section.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2012, the Company had $43,607,942 in cash and cash equivalents (December 31, 2011: $16,144,609) and $45,204,695 in working capital (December 31, 2011: $18,030,398). Based on the available working capital, as well as forecasted positive net cash flow from operations, management has estimated that the Company would have sufficient capital to fund the completion of the Origin Acquisition along with on-going operations and required capital expenditures for the next twelve months, considering the current required exploration and development programs.

However, to provide additional financial flexibility in order to carry out additional planned capital expenditure, NZEC has advanced discussions with a potential lender to establish a debt facility and signed a facility mandate letter. A facility is anticipated to be based partly on NZEC's reserves and partly on the value of the Company's assets.

Under the terms of the Origin Agreement, the Company was required to place the balance of the purchase price (US$35 million) on deposit with a registered bank in New Zealand. On October 17, 2012, the Company placed US$35 million on deposit in the Company's name with The Hong Kong Shanghai Banking Corporation Limited ("HSBC") and subsequently secured an operating line of credit against such deposit with HSBC. The operating line of credit is limited to an amount of US$34.5 million and, to the extent drawn upon, will bear interest at LIBOR plus 0.3% with a final maturity date of May 16, 2013. To date NZEC has drawn US$6.5 million against the operating line of credit.

The Company'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 Company's capital includes share capital and the cumulative deficit. The Company'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 Company 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 Company'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 Company. To the extent required, the Company's current treasury and funds raised in financing during the period will be used to fund any negative operating cash flows in future periods.

CASH FLOWS

Operating Activities

For the nine-month period ended September 30, 2012 the Company generated a net loss of $892,975 (2011: net loss of $6,718,998). Non-cash income statement amounts recorded during the period included $1,377,086 (2011: $1,663,997) in stock-based compensation, $3,219,570 (2011: $34,390) in depreciation and accretion, $1,609,314 loss (2011: $13,110 gain) in foreign exchange differences and $1,204,171 (2011 $Nil) in deferred income taxes. Total reduction to non-cash working capital items during the period amounted to $1,856,810 (2011: $526,640) for aggregate cash provided by operating activities of $4,660,356 (2011: cash used in operating activities of $3,033,588).

Investing Activities

For the nine-month period ended September 30, 2012, the Company incurred $24,559,102 (2011: $5,885,818) in expenditures on its resource properties. The majority of these costs included the well development activities on the Eltham and Ranui permits. The Company incurred $135,951 (2011: $326,927) in development of a proprietary database and $4,723,271(2011: $67,913) for the purchase of property and equipment. The Company paid an additional $6,087,795 (2011: withdrawal of $3,060) in deposits of which $5,000,000 related to the Origin Acquisition, $1,009,794 related to drilling services and $78,001 related to other retainers and deposit. Total cash used in investing activities for the period was $35,527,922 (2011: $6,277,598).

Financing Activities

For the nine-month period ended September 30, 2012, financing activities provided $59,325,205 (2011: $26,452,375). Cash provided from financing activities was the result of the completion of the Company's March 2012 financing for gross proceeds of $63,480,000.

RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	Three months ended September 30, 2012 $	Three months ended September 30, 2011 $	Nine months ended September 30, 2012 $	Nine months ended September 30, 2011 $
Salary and management fees	361,500	317,000	1,089,650	865,850
Share-based compensation	757,417	584,513	2,155,905	1,584,513
	1,118,917	901,513	3,245,555	2,450,363

Amounts Payable to Related Parties

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

	September 30, 2012 $	December 31, 2011 $
Wexford Energy Ltd.("Wexford"), a private company controlled by an Executive Director	-	22,400
Others	40	20,316
	40	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.

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 Company 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	11,252,854
February 2012	3.79	1.60	23,921,778
March 2012	3.45	2.79	13,549,189
April 2012	3.19	2.39	12,603,644
May 2012	2.90	2.16	11,842,831
June 2012	2.09	1.52	7,712,493
July 2012	1.98	1.61	6,138,832
August 2012	2.39	1.54	7,555,925
September 2012	2.18	2.04	5,602,393
October 2012	2.10	1.60	8,272,210

OFF-BALANCE SHEET ARRANGEMENTS

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

FINANCIAL RISK MANAGEMENT

The Company'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 Company'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 Company.

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

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

Credit Risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company'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 Company's production is sold directly to a major oil company. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition.

The carrying value of the Company'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 September 30, 2012.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its work commitments and other financial obligations as they fall due. The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account cash flows from operations and the Company'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 Company'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 Company 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 September 30, 2012 by approximately $436, 000.

Subsequent to September 30, 2012, the Company entered into a variable rate revolving operating credit facility which bears interest at LIBOR plus a margin of 0.3%. Due to the revolving nature of the facility and the relative short term to maturity, the Company considers its exposure to interest rate risk not to be significant.

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 Company for its production are largely beyond the Company's control as petroleum prices are impacted by world economic events that dictate the levels of supply and demand. All of the Company's oil production is sold at Brent oil spot rates exposing the Company 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 Company's authorized share capital consists of an unlimited number of voting common shares. As at September 30, 2012, the Company had 121,769,105 common shares outstanding.

As of the date of this MD&A, the Company's share capitalization included 121,769,105 common shares, 657,315 advisor warrants and 9,184,000 stock options of which 657,315 advisor warrants and 2,992,911 are exercisable.

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 Company's business is subject to the risks normally encountered in the oil and natural gas industry such as the marketability of, and prices for, oil and natural gas, competition with companies having greater resources, acquisition, exploration and production risks, need for capital, fluctuations in the market price and demand for oil and natural gas, the regulation of the oil and natural gas industry by various levels of government and public protests. The success of further exploration or development projects cannot be assured. In addition, the Company's operations are primarily outside of Canada and are subject to risks arising from 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 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 MD&A 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.