NEW ZEALAND ENERGY CORP.

Second Quarter 2014
Management's Discussion and Analysis

June 30, 2014

(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, 2013, and the unaudited condensed consolidated interim financial statements for the period ended June 30, 2014, 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 consolidated financial statements, are presented in accordance with IFRS. This MD&A is prepared as of August 29, 2014 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 subsidiaries (collectively "NZEC" or "the Company") is engaged in the production, exploration and development of conventional and unconventional oil and natural gas resources in New Zealand, as well as the operation of the midstream assets in which the Company holds a working interest. The Company's assets are located in the Taranaki Basin and East Coast Basin of New Zealand's North Island.

In the Taranaki Basin, NZEC holds 97,630 net acres across three Petroleum Mining Licenses ("PMLs"), one Petroleum Mining Permit ("PMP") and two Petroleum Exploration Permits ("PEPs"). NZEC is the operator of all of the PMLs, PMP and PEPs. Following a strategic acquisition in October 2013 ("TWN Acquisition"), NZEC holds a 50% interest in the Waihapa Production Station, PML 38138 (the "Tariki License"), PML 38140 (the "Waihapa License") and PML 38141 (the "Ngaere License") (collectively the "TWN Licenses") with L&M Energy Limited ("L&M"). NZEC also holds a 100% interest in PMP 55491 (the "Copper Moki Permit"), a 100% interest in PEP 51150 (the "Eltham Permit") and a 65% interest in PEP 51151 (the "Alton Permit") with L&M. NZEC has advanced 12 wells to production in the Taranaki Basin – four on the Copper Moki Permit (previously part of the Eltham Permit) and eight on the TWN Licenses – and expects to advance additional wells to production in 2014. The Company is actively seeking a farm-in partner for its Eltham and Alton permits to accelerate the drilling of new exploration wells on these permits.

In the East Coast Basin, NZEC holds a 100% interest in PEP 52976 (the "East Cape Permit"), which covers 1,048,406 onshore acres. To date the Company has focused on advancing its technical understanding of the East Coast oil shales, and is now looking for a farm-in partner to fund the drilling of exploration wells on the East Cape Permit.

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 and limited enhanced technology. 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 benefit of Brent crude oil pricing.

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 production and exploration opportunities that are close to infrastructure, allowing for rapid tie-in of production upon success; and growing reserves, production and cash flow with oil-focused exploration success.

NZEC's near-term exploration and production activities are focused in the Taranaki Basin, which offers production potential from five drill-proven formations. NZEC's Taranaki exploration permits are on trend with numerous oil and gas producing fields that have been producing for decades, including NZEC and L&M's recently acquired TWN Licenses that have historically produced in excess of 23 million barrels of oil. NZEC's Taranaki exploration strategy is to prioritize low-cost production opportunities in existing wells drilled by previous operators, followed by drilling of new targets based on analysis of 3D seismic data. NZEC is actively seeking a funding or farm-in partner to accelerate the drilling of new wells, and expects to focus its exploration activities in the near-term on the Tikorangi and Mt. Messenger formations. Exploration of the deeper Kapuni Formation, which has been highly productive on offsetting permits, is expected to be undertaken with a joint venture partner to reduce NZEC's expenditure risk.

In the East Coast Basin, many of the basin's 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 underlying oil shale formations using modern technology.

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

The Company often forms joint arrangements with other oil and gas companies to advance its properties. These partnerships reduce NZEC's operating and capital risk, while bringing additional technical expertise and New Zealand operating insight. The Company has formed a key business partnership with L&M Energy Limited, and is actively seeking farm-in partnerships to advance its other permits.

FINANCIAL SNAPSHOT

	Six months ended June 30, 2014	Three months ended June 30, 2014	Six months ended June 30, 2013	Three months ended June 30, 2013
Production	38,748 bbl	19,066 bbl	48,752 bbl	18,573 bbl
Sales	38,020 bbl	20,390 bbl	49,204 bbl	21,958 bbl
Price	118.65 $/bbl	118.22 $/bbl	107.27 $/bbl	100.96 $/bbl
Production costs	43.79 $/bbl	43.38 $/bbl	67.23 $/bbl	73.62 $/bbl
Royalties	10.94 $/bbl	9.53 $/bbl	4.94 $/bbl	4.88 $/bbl
Field netback	63.92 $/bbl	65.30 $/bbl	35.10 $/bbl	22.46 $/bbl
Revenue	$9,412,088	$3,232,706	$5,034,958	$2,109,700
Pre-production recoveries	$Nil	$Nil	$Nil	$Nil
Total comprehensive loss	($5,163,603)	($13,071,198)	($4,687,377)	($6,000,775)
Net finance expense	$151,957	$82,103	$119,712	$101,826
Loss per share – basic and diluted	($0.07)	($0.06)	($0.04)	($0.02)
Current assets	$6,603,162		$43,176,858	
Total assets	$107,513,101		$127,318,182	
Total long-term liabilities	$7,697,362		$3,180,348	
Total liabilities	$10,648,010		$36,839,464	
Shareholders' equity	$96,865,091		$90,478,718	

Note: The abbreviation **bbl** means barrels of oil.

At the date of this MD&A, the Company had an estimated $2.3 million in working capital (excluding materials and supplies of approximately NZ$1.9 million).

Six-month Operating Results

During the six-month period ended June 30, 2014, the Company produced 38,748 bbl and sold 38,020 bbl for total oil sales of $4,510,950, with an average oil sale price of $118.65 per bbl. Total recorded production revenue, net of royalties payable to the New Zealand Government and, in the case of hydrocarbons produced from the TWN Licenses, royalties payable to Origin Energy Limited ("Origin"), was $4,094,954. Production costs during the six-month period ended June 30, 2014 totalled $1,664,702, or an average of $43.79 per bbl, generating an average field netback of $63.92 per bbl during the period.

The increase in netback during the six-month period ended June 30, 2014, when compared to the same period in 2013, is partly due to an increase in the oil sales price, but most notably due to a reduction in production costs resulting from cost efficiencies gained due to the installation of production facilities on the Copper Moki Permit.

During the six-month period ended June 30, 2014, the Company produced oil from six reactivated Tikorangi wells on the TWN Licenses, with the addition of production from a reactivated Mt. Messenger well commencing in March 2014, for total production from the TWN Licenses during the period of 16,360 bbl net to NZEC. The Company undertook a number of reservoir and production tests on the TWN wells with the objective of optimizing oil production, and these tests have added to production costs. During the period the Company also produced a total of 22,388 bbl from three wells on the Copper Moki Permit.

Reduced production during the six-month period ended June 30, 2014, compared to the same period in 2013, is the result of the decline in production from the Copper Moki field through to December 2013, which is to be anticipated in oil wells. Production from the Copper Moki field has been very stable year to date, with virtually no decline in production rates over the first six months of 2014.

Three-month Operating Results

During the three-month period ended June 30, 2014, the Company produced 19,066 bbl and sold 20,390 bbl for total oil sales of $2,410,405, with an average oil sale price of $118.22 per bbl. Total recorded production revenue, net of royalties payable to the New Zealand Government and, in the case of hydrocarbons produced from the TWN Licenses, to Origin, was $2,216,041. Production costs during the three-month period ended June 30, 2014 totalled $884,587 or an average of $43.38 per bbl, generating an average field netback of $65.30 per bbl during the period.

During the period the Company produced oil from seven reactivated wells on the TWN Licenses, for total production from the TWN Licenses during the quarter of 6,402 bbl net to NZEC. This resulted in an overall decrease in production (total 19,066 bbl) compared to the previous quarter (total 19,682 bbl). The Company achieved an overall field netback of $65.30 per bbl for the three months ended June 30, 2014, compared to $62.33 per bbl during the previous quarter ended March 31, 2014. The higher netback is due to a reduction in reported production costs and royalties.

RECENT DEVELOPMENTS

The Company released its year-end reserve estimate on April 2, 2014, on May 1, 2014 announced that it had relinquished its interest in the early-stage Manaia Permit in the Taranaki Basin, and on June 23, 2014 announced that it had relinquished its interests in the Castlepoint and Wairoa permits in the East Coast Basin of New Zealand's North Island. The Company also effected changes to its executive team in the second quarter of 2014. On May 19, 2014, David Robinson commenced his employment in the new position of Chief Executive Officer of the Company's New Zealand business and also joined NZEC's Board of Directors. Ian Brown and Bruce McIntyre took early retirement from their paid employment positions during the quarter and at the Company's Annual General Meeting in June 2014, Bruce McIntyre did not stand for re-election as a director.

Subsequent to the quarter-end, the Company was granted the 943.7-acre Copper Moki Permit in the Taranaki Basin. The Copper Moki Permit was carved out of the Eltham Permit to encompass the Company's Copper Moki and Waitapu oil discoveries. This permit gives the Company the right to produce oil and natural gas from the Moki, Mt. Messenger and Urenui formations for a period of eight years, with the option to extend the permit. As a condition of the Copper Moki Permit, the Company has agreed to build a gas pipeline of approximately 1.3 km within 18 months, connecting the Waitapu site to existing pipeline infrastructure. The remaining acreage of the Eltham Permit totals 46,444.2 acres, of which approximately 40,389 acres is onshore.

PROPERTY REVIEW & OUTLOOK

Reserves & Resources

As required under National Instrument 51-101 – Standards of Disclosure for Oil and Gas Activities, the Company commissioned Deloitte LLP to prepare a year-end oil reserve estimate and economic evaluation with an effective date of December 31, 2013. NZEC's Proved + Probable (2P) reserves, reflecting the Company's 100% interest in the Copper Moki Permit and its 50% interest in the Waihapa and Ngaere PMLs, are estimated at 1.2 million barrels of oil (1.6 million barrels of oil equivalent[1]) with an after tax net present value, discounted at 10%, of $57.9 million. Additional information regarding the Company's reserves is available in the Company's Form 51-101F1 Statement of Reserves Data dated April 2, 2014, which is filed on SEDAR. NZEC also has additional conventional contingent resources (580,000 barrels of oil equivalent[1], best estimate) and conventional prospective resources (196.1 million barrels of oil equivalent[1], best estimate), as outlined in the Company's Interim Statement of Reserves and Resources dated October 28, 2013, which is filed on SEDAR.

Taranaki Basin

The Taranaki Basin is situated on the west coast of New Zealand's North Island and is currently the country's only oil and gas producing basin, with total production of approximately 130,000 barrels of oil equivalent per day ("boe/d") from 18 fields. Within the Taranaki Basin, NZEC holds a 100% interest in the Copper Moki Permit, a 100% interest in the Eltham Permit, a 65% interest in the Alton Permit with L&M, and a 50% interest in the TWN Licenses and the TWN Assets with L&M. NZEC's net Taranaki acreage totals 97,630 acres (395 km^2), of which approximately 6,055 acres is offshore.

[1] Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. The boe conversion ratio of 6 Mcf : 1 bbl is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

The Taranaki Basin offers production potential from multiple prospective formations, ranging from the Kapuni sandstones at a depth of approximately 4,000 metres, the Tikorangi limestones at approximately 3,000 metres, the Moki sandstones at approximately 2,500 metres, and the shallower Mt. Messenger and Urenui sandstones at approximately 2,000 metres. All of NZEC's production to date is from the Tikorangi and Mt. Messenger formations.

NZEC has advanced 12 wells to production: four on the Copper Moki Permit and eight on the TWN Licenses. The Company is currently focused on optimizing production from existing wells. In addition, NZEC has an extensive portfolio of 3D seismic drill targets on its Taranaki permits, and is actively seeking funding and farm-in partners with the intention that the partner would fund the drilling of high-priority targets in return for an interest in the permits.

The Company's ability to continue as a going concern is dependent upon its ability to fund near-term development activities with the expectation of generating positive cash flow from operations. The Company's ability to fund these development activities, the success of these development activities, or whether sufficiently profitable operations will be attained from these development activities, cannot be assured. In light of these uncertainties, there is significant doubt about the Company's ability to continue as a going concern.

The Company continues to pursue a number of options to increase its financial capacity, including increasing cash flow from oil production, disposal of interests in fixed assets, credit facilities, joint arrangements, commercial arrangements or other financing alternatives, in order to meet all required and planned capital expenditures for the next 12 months.

<u>Production and Processing Revenue</u>

Total corporate production during the first six months of 2014 averaged 214 bbl/d net to NZEC. Total corporate production during the second quarter averaged 228 bbl/d in April, 201 bbl/d in May and 231 bbl/d in June. Production in July averaged 202 bbl/d, with a small increase in August (up to August 29) for an average of 205 bbl/d net to NZEC. Production fluctuations month to month are largely the result of optimization efforts on the TWN Licenses. The TWN wells (with the exception of Toko-2B, which is on high-volume lift) are now operating on a rest and recovery mode rotation, which is intended to optimize production by allowing wells to build up pressure during the rest period and then yield flush production. The TWN Joint Arrangement ("TWN JA"), (the 50/50 NZEC/L&M Energy partnership that owns the TWN Licenses) is currently running well gradient surveys on all of the reactivated wells to help determine the optimum flow period for each well. Production from three of the Copper Moki Permit wells has remained very stable year to date. The fourth well, Copper Moki-3, has been shut-in since early March and will remain shut-in until a revised artificial lifting system has been evaluated to deal with the sand accumulation in this highly deviated well.

<u>TWN Licenses</u>

NZEC and L&M formed the TWN JA, with NZEC as the operator, to explore and develop the TWN Licenses and operate the Waihapa Production Station and associated infrastructure. The TWN JA has identified two avenues to achieve low-cost, near-term production on the TWN Licenses: reactivating oil production from the Tikorangi and Mt. Messenger formations in existing wells that were produced historically, and recompleting existing wells uphole in shallower formations that have not been produced. Reactivations and uphole completions are significantly less expensive and faster than drilling new wells, and economic discoveries can often be tied in to the Waihapa Production Station using existing oil and gas gathering pipelines.

At the date of this MD&A, the TWN JA had advanced eight wells to production on the TWN Licenses for a total of 57,826 bbl produced since closing of the TWN Acquisition (28,913 bbl net to NZEC), with cumulative pre-tax oil sales net to NZEC of approximately $3.1 million (net results of operations are discussed under *Results of Operations*). One of the wells (Waihapa-2) is currently shut-in while the TWN JA finalizes its evaluation of the economic and production impact of installing a jet pump to artificially lift the well. All of the wells produce light ~41^{o} API oil that is delivered by pipeline to the Waihapa Production Station and then piped to the Shell-operated Omata tank farm in New Plymouth, where it is sold at Brent pricing less standard Shell costs.

The TWN JA is focused on optimizing production from its wells. As part of the optimization process, in April 2014 the TWN JA installed high-volume lift ("ESP") on the Toko-2B well. Toko-2B was chosen as the first well for ESP installation because the well had a high oil cut of approximately 20%, but had to be shut-in every few days to allow the Company to unload a water column that would build up in the well. The TWN JA expected that an ESP would allow the well to be produced continuously and would maximize oil recovery. The ESP was operated initially using a portable generator, which limited the pumping capacity and did not adequately draw down fluid levels in the well. In May 2014 the TWN JA connected the Toko-2B ESP to a permanent power source and has increased pumping to the rate of 9,000 boe/d. While the well is still pumping through a high water load and oil production has not reached anticipated levels, the TWN JA is hopeful that continual pumping of the well will draw down the reservoir pressure sufficiently to draw oil into the well, which should allow the oil cut to increase over time.

A number of wells on the TWN Licenses, with previous production from the Tikorangi Formation, have uphole completion potential in the shallower Mt. Messenger Formation. The TWN JA recompleted one well uphole in the Mt. Messenger Formation (Waihapa-2) and achieved production from that well in April 2014. This successful recompletion confirmed that production can be achieved from an uphole reservoir. After just eight days of production, however, sand was drawn into the pump and the well has been shut-in since that time awaiting installation of a different artificial lift system. The TWN JA has determined that jet pump is the appropriate lift for this well, since jet pump would enable any unconsolidated sand around the well bore to be produced to surface, thus reducing the potential to sand up the well. The TWN JA appointed an engineering firm to design and prepare a cost estimate for the installation of surface jet pumping facilities, and expects to make its final investment decision shortly. If approved in Q3-2014, the well could be brought on production in Q4-2014. NZEC expects that the well will be re-completed with dual packers to segregate the upper and lower Mt. Messenger zones. This will allow the zones to be tested both separately and collectively, providing production flexibility and allowing the TWN JA to gain valuable information about both Mt. Messenger zones.

The TWN JA has identified four additional production opportunities in existing wells on the TWN Licenses, along with numerous new 3D drill targets in the Mt. Messenger, Moki, Tikorangi and Kapuni formations. The Company's ability to drill new exploration wells is contingent on its financial capacity, as discussed above.

The TWN JA continues to identify opportunities to generate revenue from the Waihapa Production Station and associated infrastructure. Third-party revenue from the Waihapa Production Station since closing the TWN Acquisition totals approximately $1.8 million net to NZEC. In addition, during February 2014, the TWN JA entered into an agreement with a gas marketing counterparty to transport gas along a section of the TAW gas pipeline for a term of four years with a five-year right of renewal. The arrangement is expected to generate between NZ$250,000 and NZ$1 million revenue per year (net to NZEC). First gas commenced flowing on May 5, 2014, with revenue earned since that date being applied as the TWN JA's contribution to the capital cost originally incurred by the counterparty. The TWN JA expects that its capital contribution will be paid up by the end of August 2014, from which point forward the TWN JA will receive the proceeds from the revenue associated with this arrangement.

<u>Eltham Permit and Copper Moki Permit</u>

To date the Company has drilled ten exploration wells on its 100%-owned Eltham and Copper Moki permits. Four have been advanced to production. Of the ten wells drilled, only one well (Wairere-1) failed to encounter hydrocarbons and was immediately sidetracked. One well (Copper Moki-4) made an oil discovery in the Urenui Formation and has been shut-in pending additional economic analysis and evaluation of artificial lift options. Wairere-1A was drilled to the Mt. Messenger Formation and encountered hydrocarbon shows, with completion pending. Arakamu-2 made an oil discovery in the Mt. Messenger Formation and has been shut-in pending evaluation of artificial lift options. Waitapu-1 is shut-in pending further testing or sidetrack to an alternate target and Arakamu-1A, a Moki Formation well, is suspended pending further evaluation. The Company continues to assess these opportunities as new reservoir data becomes available from the Company's activities on the TWN Licenses.

NZEC is actively seeking farm-in partnerships to allow the Company to accelerate exploration of additional high-priority drill targets on the Eltham Permit.

At the date of this MD&A, the Company has produced approximately 275,323 bbl from its Copper Moki Permit wells (including oil produced during testing), with cumulative pre-tax oil sales from inception of approximately $29.7 million (net results of operations are discussed under *Results of Operations*). Production from the Copper Moki wells has been very stable year to date, with virtually no decline in production rates during the first six months of 2014. The Waitapu-2 well recommenced production on March 6, 2014 following installation of artificial lift, with production remaining stable. The Copper Moki-3 well has been shut-in since early March and will remain shut-in until a revised artificial lifting system has been evaluated to deal with the sand accumulation in this highly deviated well.

All of the Copper Moki Permit wells produce light ~41^{o} API oil from the Mt. Messenger Formation. Oil is trucked to the Shell-operated Omata tank farm in New Plymouth and sold at Brent pricing less standard Shell costs. During January 2014, NZEC began delivering natural gas produced from wells on the Copper Moki site through a pipeline to the Waihapa Production Station, where it is blended with gas produced from the TWN Licenses and used by the TWN Partnership to lift the TWN JA reactivated wells and run the Waihapa Production Station compressors. Using internally generated gas for these activities, rather than purchasing it, has significantly reduced operating costs at the Waihapa Production Station and brought modest natural gas revenue to the Company. In addition, subsequent to the period-end NZEC has sold approximately six terrajoules of Copper Moki natural gas production to a third-party.

<u>Alton Permit</u>

During 2014, the Company plans to drill a new exploration well on the Alton Permit. The current work program for the Alton Permit requires the Company to drill an exploration well by November 22, 2014. The Company has identified a drill target in the Mt. Messenger Formation and has received all necessary resource and land access consents required to drill the well. However, certain conditions associated with the consents have prompted the Company to lodge an appeal for mediation. In order to allow time for the appeal and anticipated mediation, NZEC has requested an extension to the drill date to at least Q1-2015.

NZEC is actively seeking farm-in partnerships to allow the Company to accelerate exploration of additional high-priority drill targets on the Alton Permit.

Manaia Permit

The Company announced on May 1, 2014 that it had relinquished its interest in the early-stage Manaia Permit, in the Taranaki Basin, in order to focus on exploration and development opportunities with the potential to more rapidly yield additional production and cash flow for the Company.

East Coast Basin

The East Coast Basin of New Zealand's North Island hosts two prospective oil shale formations, the Waipawa and Whangai, which are believed to be the source of more than 300 oil and gas seeps. Within the East Coast Basin, NZEC holds a 100% interest in the East Cape Permit which covers approximately 1,048,406 onshore acres (4,243 km^2) on the northeast tip of the North Island. The Company anticipates completing fieldwork and geochemical studies on the East Cape Permit in 2014. NZEC is also actively seeking a farm-in partner to participate in and fund exploration and development in return for an interest in the permit.

The Company announced on June 23, 2014 that it had relinquished its interests in the Castlepoint and Wairoa permits in the East Coast Basin, reducing its work program commitments by $13.9 million for 2014 and $54.3 million over the life of the relinquished permits. The work previously undertaken by the Company on these permits has yielded significant technical information and insight into the Waipawa Black Shale, which will guide the Company's exploration strategy on the East Cape Permit. In addition, NZEC's community engagement activities have allowed the Company to build strong relationships with regulators, landowners and iwi communities in the East Coast Basin.

SUMMARY OF QUARTERLY RESULTS

	2014-Q2 $	2014-Q1 $	2013-Q4 $	2013-Q3 $
Total assets	107,513,101	124,788,600	116,782,687	105,313,813
Exploration and evaluation assets	46,476,829	56,876,779	51,500,037	55,859,632
Property, plant and equipment	53,409,032	54,786,347	49,169,997	26,621,043
Working capital	3,652,514	5,299,434	6,878,152	4,748,797
Revenues	3,091,139	6,320,949	4,108,911	1,519,010
Accumulated deficit	(47,287,210)	(37,122,556)	(35,099,834)	(27,292,947)
Total comprehensive (loss) income	(13,616,047)	8,452,444	(5,963,723)	1,347,788
Basic loss per share	(0.06)	(0.01)	(0.06)	(0.02)
Diluted loss per share	(0.06)	(0.01)	(0.06)	(0.02)

	2013-Q2 $	2013-Q1 $	2012-Q4 $	2012-Q3 $
Total assets	127,318,182	129,545,992	116,059,939	98,882,087
Exploration and evaluation assets	52,357,470	49,610,922	37,379,726	26,377,188
Property, plant and equipment	26,135,651	25,793,089	23,867,758	16,293,123
Working capital	9,517,742	17,533,636	28,293,845	45,204,695
Revenues	2,109,700	2,925,258	2,948,041	3,708,254
Accumulated deficit	(24,616,053)	(22,386,089)	(19,992,243)	(17,804,045)
Total comprehensive (loss) income	(6,000,775)	1,313,397	(1,333,805)	(2,018,634)
Basic loss per share	(0.02)	(0.02)	(0.02)	(0.02)
Diluted loss per share	(0.02)	(0.02)	(0.02)	(0.02)

The Company completed its initial public offering in August 2011 and immediately drilled its first oil discovery in the Taranaki Basin. The Company continued its exploration efforts through 2011 and 2012, drilling seven more wells by the end of 2012, of which four have been successfully advanced to production.

During Q1-2013, the Company drilled another exploration well and sidetracked another, and then announced that it was delaying the remaining two wells in the Eltham/Alton drill program in order to focus on the commercial opportunities in the pending acquisition of the TWN Licenses and TWN Assets. During Q2-2013, the Company continued to work towards completion of the TWN Acquisition, negotiating a revised purchase consideration of $33.7 million with simplified deal terms. The Company also entered into the TWN JA with L&M. The Company also shut-in its Waitapu-2 well while completing a Mt. Messenger reservoir study and evaluating artificial lift options. During Q3-2013, the Company continued to produce its Copper Moki wells and continued workover activities on Waitapu-2 to install artificial lift and surface facilities. The Company met the financing condition precedent related to the TWN Acquisition at the quarter-end. During Q4-2013, the Company progressed to completion of the TWN Acquisition and continued with its development plan for the TWN Licenses, reactivating six Tikorangi wells using an existing gas lift system and also initiating the first uphole completion to the Mt. Messenger Formation. The Company also relinquished its Ranui Permit in the East Coast Basin.

During Q1-2014, the Company completed its first full quarter of operations of the TWN Assets and TWN Licenses while also continuing operation of its producing wells on the Copper Moki Permit, and re-commenced production from the Waitapu-2 well on the Copper Moki Permit. During Q2-2014, the Company relinquished its Manaia Permit in the Taranaki Basin and relinquished its Castlepoint and Wairoa permits in the East Coast Basin. Along with its joint arrangement partner, the Company has continued to focus on executing low-cost development activities on the TWN Licenses, as described in *Property Review & Outlook.*

Since the Company's inception, general and administrative costs have been incurred to assist in establishing the Company's operating structure, setting up offices in both Canada and New Zealand, securing key personnel, and general business development. The Company continues to take significant steps to reduce overhead, consolidating its three New Plymouth premises into one office and eliminating a number of consulting and employment positions.

RESULTS OF OPERATIONS FOR THE THREE-MONTH PERIOD ENDED JUNE 30, 2014

Revenue

During the three-month period ended June 30, 2014, the Company produced 19,066 bbl (2013: 18,573 bbl) of oil and sold 20,390 bbl (2013: 21,958 bbl) for total oil sales of $2,410,405 (2013: $2,216,815), or $118.22 per bbl (2013: $100.96 per bbl). Increased production compared to the same period in 2013 is the result of advancing wells on the TWN Licenses to production, compared to the previous period which accounted for production from the Copper Moki Permit only. During Q2-2013, the producing wells on the Copper Moki Permit were also shut in for periods of time in order to install production facilities and to collect reservoir and well data.

During the three-month period ended June 30, 2014, the Company recorded sales from purchased oil, gas and condensate of $313,425, $42,043 and $Nil, respectively (2013: $Nil, $Nil and $Nil). The Company also received $500,108 of processing revenue (2013: $Nil) from the Company's interest in the Waihapa Production Station.

Total recorded revenue during the three-month period ended June 30, 2014 was $3,091,139 (2013: $2,109,700), which is accounted for net of royalties of $194,364 (2013: $107,115).

Expenses and Other Items

Production costs related to oil sales during the three-month period ended June 30, 2014 totalled $884,587 (2013: $1,616,471) or $43.38 per bbl (2013: $73.62 per bbl). The decrease in production costs in Q2-2014 compared to Q2-2013 was the result of cost efficiencies due to the installation of production facilities on the Copper Moki Permit. Other costs of $313,425 are directly related to the sale of purchased oil and condensate.

Processing costs of $295,337 (2013: $Nil) relate to direct costs associated with operation of the TWN Assets, which were acquired in Q4-2013.

Depreciation costs incurred during the three-month period ended June 30, 2014 totalled $867,327 (2013: $999,237), or $42.54 per bbl of oil sold (2013: $45.51 per bbl). 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.

Stock-based compensation for the three-month period ended June 30, 2014 resulted in an expense of $145,592 (2013: $200,441). The increase is because the Company granted more share purchase options to employees, directors and officers of the Company compared to the previous quarter.

General and administrative expenses for the three-month period ended June 30, 2014 remained consistent (in total) with the comparative period at $1,441,283 (2013: $1,445,954), despite the addition of costs associated with operating the TWN Assets, a testament to the recent overhead reduction executed by management.

Net finance expense for the three-month period ended June 30, 2014 totalled $82,103 (2013: $101,826). During the three-month period ended June 30, 2014, the Company's finance expense decreased compared to the previous quarter as the Company no longer had interest expense related to the operating line of credit present during the previous quarter of June 30, 2013. Net finance expense during the quarter ended June 30, 2014 related mainly to accretion expense ($80,575) due to higher asset retirement obligations incurred from the acquisition of the TWN Licenses and TWN Assets, compared to the accretion expense recognized in Q2-2013 ($51,850).

Foreign exchange gain for the three-month period ended June 30, 2014 amounted to $158,512 (2013: $637,680). The foreign exchange gain decreased compared to the previous quarter due to a reduction in US dollar denominated monetary assets held by the Company during the current three-month period compared to the comparative period in 2013.

Total Comprehensive Loss

Total comprehensive loss for the three-month period ended June 30, 2014 totalled $13,616,047 after taking into account a foreign translation reserve gain of $3,451,393 on the translation of foreign operations and monetary items that form part of NZEC's net investment in foreign operations. Total comprehensive loss for the comparable period in 2013 was $6,000,775.

Based on a weighted average shares outstanding balance of 170,873,459, the Company realized a $0.06 basic and diluted loss per share for the three-month period ended June 30, 2014. During the three-month period ended June 30, 2013, the Company realized a $0.02 basic and diluted loss per share, based on a weighted average shares outstanding balance of 121,969,105.

RESULTS OF OPERATIONS FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2014

Revenue

During the six-month period ended June 30, 2014, the Company produced 38,748 bbl of oil (2013: 48,752 bbl) and sold 38,020 bbl (2013: 49,204 bbl) for total oil sales of $4,510,950 (2013: $5,277,878), or $118.65 per bbl (2013: $107.27). Reduced production in 2013 is the result of production declines in the Copper Moki wells, compared to the same period in 2013.

During the six-month period ended June 30, 2014, the Company recorded sales from purchased oil, gas and condensate of $2,901,644, $42,043 and $1,491,358, respectively (2013: $Nil, $Nil and $Nil). The Company also received $862,567 of processing revenue (2013: $Nil) from the Company's interest in the Waihapa Production Station.

Total recorded gross production revenue was $9,412,088 (2013: $5,034,958), which accounted for royalties of $415,996 (2013: $242,920), or $10.94 per bbl sold (2013: $4.94 per bbl).

Expenses and Other Items

Production costs during the six-month period ended June 30, 2014 totalled $1,664,702 (2013: $3,307,876), or $43.79 per bbl sold (2013: $67.23 per bbl). Included in production costs are all site-related expenditures, including applicable equipment rental fees, site services, overheads and labour, transportation, and storage. The decrease in production costs in the six-month period ended June 30, 2014 compared to the same period in 2013 was primarily from cost efficiencies gained due to the installation of production facilities on the Copper Moki Permit. Production costs also decreased due to the reduction in production overhead costs as well as lower variable production costs, stemming from lower production levels compared to the six-month period ended June 30, 2013. During the six-month period ended June 30, 2014, the Company also recognized $4,393,002 in costs directly related to the sale of purchased oil and condensate (2013: $Nil).

Processing costs of $589,959 (2013: $Nil) relate to direct costs associated with operation of the TWN Assets, which were acquired in Q4-2013.

Depreciation costs incurred during the six-month period ended June 30, 2014 totalled $1,696,773 (2013: $1,866,280), or $44.63 per bbl sold (2013: $37.93 per bbl). 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.

Stock-based compensation for the six-month period ended June 30, 2014 totalled $395,212 compared to $780,458 during the same period in 2013. The decrease in stock-based compensation corresponds to fewer stock options granted during the period.

General and administrative expenses for the six-month period ended June 30, 2014 totalled $3,264,781 compared to $3,128,458 incurred in the same period in fiscal 2013. The higher general and administrative expenses reflect the cost of additional personnel associated with operating the TWN Assets, which were acquired in Q4-2013. General and administrative expenses in total for the six-month period ended June 30, 2014 remained comparable to expenses incurred during the six-month period ended June 30, 2013, despite the addition of the TWN Assets, a testament to the recent overhead reduction executed by management.

Transaction costs for the six-month period ended June 30, 2014 totalled $Nil compared to $777,325 incurred in the same period in fiscal 2013. The transaction costs incurred during the period included legal and professional fees incurred in relation to the TWN Acquisition, which were expensed as they were incurred.

Net finance expense for the six-month period ended June 30, 2014 totalled $151,957 compared to net finance expense of $119,712 in the same period in fiscal 2013. The net finance expense incurred during the quarter is mainly due to accretion expense recorded for asset retirement obligations related to the TWN Licenses, whereas the Company earned interest on its higher cash and cash-equivalent balances and on term deposits during the comparative period in 2013.

Total Comprehensive Loss

Total comprehensive loss for the six-month period ended June 30, 2014 totalled $5,163,603 after taking into account a loss on the exchange difference on translation of foreign currency of $7,023,773, which compares to total comprehensive loss for the six-month period ended June 30, 2013 of $4,687,377.

Based on a weighted average shares outstanding balance of 170,873,459, the Company realized a $0.07 basic and diluted loss per share for the six-month period ended June 30, 2014. During the period ended June 30, 2013, based on a weighted average shares outstanding balance of 121,951,425, the Company realized a $0.04 basic and diluted loss per share.

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES

Taranaki Basin

During the six-month period ended June 30, 2014, the Company incurred $2,692,915 in exploration and evaluation expenditures on its Taranaki Basin permits. This was due mainly to a positive foreign currency translation adjustment of $3,096,769, an expenditure of $326,113, a reduction of $194,225 in capitalized asset retirement provisions and an impairment of $535,742 with regard to the Manaia Permit.

East Coast Basin

During the six-month period ended June 30, 2014, the company capitalized $194,833 of overhead costs to the East Cape Permit. The company also recognized a positive foreign currency translation exchange of $9,468.

The Company incurred $148,235 of exploration and evaluation expenditures on the Castlepoint Permit, $84,931 on the Wairoa Permit and $194,833 on the East Cape Permit during the six-month period ended June 30, 2014. The Company recorded an impairment of $4,032,154 with regard to the Castlepoint Permit and an impairment of $4,763,118 with regard to the Wairoa Permit as at June 30, 2014, following the decision to relinquish both these permits.

CAPITAL SPENDING

During the six-month period ended June 30, 2014, cumulative expenditure of property, plant and equipment increased to $63,567,869 from $56,990,541 in the prior period. Current year additions included a $129,301 addition for furniture and fixture, an addition of $2,507,631 to oil and gas properties, a reduction in plant and equipment of $123,917, an increased asset retirement cost of $48,409, and a foreign currency translation and other adjustments of $4,015,904.

During the six-month period ended June 30, 2014, exploration and evaluation assets decreased by $5,023,208, from $51,500,037 to $46,476,829. The Company incurred $326,113 in exploration, evaluation and overhead costs associated with the Taranaki Basin, of which $110,175 related specifically to the Eltham Permit (before the reduction in estimate of asset retirement obligation of $194,225), $110,320 to the Alton Permit and $223,231 to the Manaia Permit, while a reduction of $117,613 was recorded to the TWN Licenses as a result of the reversals of previously recognized share-based compensation (in light of forfeited stock options). The Company recorded an impairment of $535,742 with regard to the Manaia Permit, following a decision in April 2014 to relinquish this permit. For the East Coast Basin, the Company incurred $148,235 of exploration and evaluation expenditures on the Castlepoint Permit, $84,931 on the Wairoa Permit and $194,833 on the East Cape Permit, prior to recording impairments of $4,032,154 and $4,763,118 on the Castlepoint and Wairoa permits, respectively, following a decision in June 2014 to relinquish these permits.

COMMITMENTS

As at June 30, 2014, the Company had the following undiscounted contractual obligations:

	2014	2015 to 2016	2017 and onwards	Total
Accounts payable	2,602,252	-	-	2,602,252
Operating lease obligations (1)	105,230	439,022	147,849	692,101
Contract and purchase commitments (2)	332,446	524,935	1,243,584	2,100,965
Environmental obligations (3)	354,643	1,085,428	16,518,773	17,958,844
Minimum work program requirements (4)	3,261,318	11,011,975	10,584,650	24,857,943
Total	**$6,655,889**	**$ 13,061,360**	**$ 28,494,856**	**$ 48,212,105**

(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 program commitments.
(3) The Company has recognized an undiscounted asset retirement obligation of $17.96 million.
(4) The Company has committed to complete certain minimum work program requirements in order to maintain its various resource permits. See *Permit Expenditure Requirements*.

PERMIT EXPENDITURE REQUIREMENTS

The Company undertakes oil and gas exploration and development activities and has contractual commitments under various agreements to complete certain exploration activities. The Company and, where relevant, the joint arrangement partner at the permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an 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.

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.

During the quarter ended June 30, 2014, the Company reduced previously reported work program commitments for 2014 by $15.4 million through the relinquishment of the Manaia, Castlepoint and Wairoa permits. The reduction in previously reported total work program commitments over the remaining exploration period of those permits amounted to $61.7 million.

The table below reflects management's estimates of future expenditures required to complete the minimum work programs required to maintain its permits in good standing, as at June 30, 2014. As at June 30, 2014, all of the minimum work program requirements for 2014 ($3,261,318) related to the Company's exploration permits, with no work program expenditures associated with the Company's producing oil and gas properties.

Properties	2014 $	2015 $	2016 $	2017 $	2018 $	Total $
Taranaki Basin (1)						
Eltham Permit (2)	320,000	200,000	-	4,500,000	-	5,020,000
Alton Permit (3)	2,877,568	-	2,615,000	-	-	5,492,568
	3,197,568	200,000	2,615,000	4,500,000	-	10,512,568
East Coast Basin						
East Cape Permit (4)	63,750	2,586,975	5,610,000	-	6,084,650	14,345,375
	63,750	2,586,975	5,610,000	-	6,084,650	14,345,375
Total	**3,261,318**	**2,786,975**	**8,225,000**	**4,500,000**	**6,084,650**	**24,857,943**

Notes:

(1) On July 28, 2014, the Company was granted the 943.7-acre (3.8 km^2) Copper Moki Permit, which gives NZEC the right to produce oil and natural gas from the Moki, Mt. Messenger and Urenui formations on the permit area for a period of eight years, with an option to extend the permit. As a condition of the permit, NZEC has agreed to build an approximately 1.3-km gas pipeline within 18 months, connecting the Waitapu site to existing pipeline infrastructure.

(2) In December 2010, NZEC acquired a 100% working interest in the Eltham Permit, which was granted to the previous permit holder on September 23, 2008 for a five-year term expiring September 22, 2013. The Company was granted an extension for a second five-year term to September 23, 2018, and as part of that process relinquished 50% of the permit area. In addition, on July 28, 2014, 943.7 acres were carved out of the Eltham Permit to encompass the Company's Copper Moki and Waitapu oil discoveries, which are now held under the Copper Moki Permit. The remaining acreage of the Eltham Permit is 46,444.2 acres (187.953 km^2), of which approximately 40,389 acres is onshore. The work program for 2014 requires the Company to reprocess 360 km^2 of 3D seismic data from the Kapuni 3D seismic survey. The Company is actively seeking a farm-in partner to accelerate exploration and development of the Eltham Permit

(3) The Minister of Energy approved the transfer of a 50% interest in the Alton Permit to the Company on October 4, 2011. In the fourth quarter of 2012 the Company earned an additional 15% interest in the Alton Permit, increasing the Company's interest from 50% to 65%, by funding the collection and processing of 3D seismic data over approximately 50 km^2 of the permit. The Alton Permit was granted to the previous permit holder on September 23, 2008 for a five-year term expiring September 22, 2013. The Company and L&M received government approval to extend the exploration term to September 23, 2018, and concurrently relinquished 50% of the permit as required, bringing the total Alton Permit acreage to 59,565 acres (38,717.4 acres net to NZEC). The current work program for the Alton Permit requires the Company to submit a technical study during 2014 and drill an exploration well by November 22, 2014. The Company has identified a drill target in the Mt. Messenger Formation and has received all necessary resource and land access consents required to drill the well. However, certain conditions associated with the consents have prompted the Company to lodge an appeal for mediation. In order to allow time for the appeal and anticipated mediation, NZEC has requested an extension to the drill date to at least Q1-2015. The Company is actively seeking a farm-in partner to accelerate exploration and development of the Alton Permit.

(4) In December 2013, the Company was granted a 100% working interest in the East Cape Permit, which covers 1,048,406.3 onshore acres (4,242.8 km^2). The Company's work program for the permit includes technical studies, reprocessing 145 km of 2D seismic and acquiring 40 km of new 2D seismic data, and drilling an exploration well by Q2-2016. The Company anticipates completing fieldwork and geochemical studies in 2014. The Company is actively seeking a farm-in partner for the East Cape Permit.

The amounts above represent the anticipated 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 total PEP period not exceeding ten years from the commencement date of the PEP. However, there are some conditions that apply, including relinquishment of part of the area comprising the PEP, up to a maximum of 75% over the total duration of the PEP.

LIQUIDITY AND CAPITAL RESOURCES

As at June 30, 2014, the Company had $688,440 in cash and cash equivalents (December 31, 2013: $4,902,888) and $3,652,514 in working capital (December 31, 2013: $6,878,152). During the six-month period ended June 30, 2014, the Company reached agreements to dispose of a number of non-core assets for total net proceeds of $1,137,553, which added to the Company's working capital at June 30, 2014.

The Company's objective is to maintain an adequate capital base in order to retain 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, in order to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the oil and natural gas industry, budgets and forecasts are reviewed regularly in light of the success of the expenditures and other opportunities which may become available to the Company.

The Company continues to pursue a number of options to increase its financial capacity, including increasing cash flow from oil production, disposal of interests in fixed assets, credit facilities, joint arrangements, commercial arrangements or other financing alternatives.

The Company's ability to continue as a going concern is dependent upon its ability to fund near-term development activities with the expectation of generating positive cash flow from operations. The Company's ability to fund these development activities, the success of these development activities, or whether sufficiently profitable operations will be attained from these development activities, cannot be assured. In light of these uncertainties, there is significant doubt about the Company's ability to continue as a going concern.

CASH FLOWS

Operating Activities

For the six-month period ended June 30, 2014, the Company generated a net loss of $12,187,376 (2013: $4,623,810). Non-cash income statement amounts recorded during the period included $395,212 in stock-based compensation (2013: $780,458), $1,856,956 in depreciation and accretion (2013: $1,918,130), and $65,815 in foreign exchange loss (2013: $256,931 foreign exchange gain). The total decrease to non-cash working capital items during the period amounted to $285,671 (2013: increase of $2,057,745) resulting in aggregate cash used in operating activities of $770,413 (2013: cash generated by operating activities of $124,408).

Investing Activities

For the six-month period ended June 30, 2014, the Company incurred $920,098 in expenditures on its resource properties (2013: $19,982,477). The Company incurred $119,816 in development of a proprietary database and software (2013: $96,136) and $3,511,586 for the purchase of property and equipment (2013: $4,271,671). The Company received $1,137,553 from the disposition of assets held for sale (2013: $Nil). Total cash used by investing activities for the period was $3,413,947 (2013: $24,086,418).

Financing Activities

For the six-month period ended June 30, 2014, the company had no financing activities (2013: $19,703,573).

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 June 30, 2014 $	Three months ended June 30, 2013 $	Six months ended June 30, 2014 $	Six months ended June 30, 2013 $
Salary and management fees	572,290	739,340	1,097,851	1,470,591
Share-based compensation	104,634	398,999	186,835	970,887
	676,924	1,138,339	1,284,686	2,441,478

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties.

Subsequent to the period-end, the Compensation Committee of the Board of Directors reached an agreement with the CEO to defer 33% of the CEO's monthly cash compensation until such time as the Company's financial capacity has suitably improved.

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. All of the escrowed shares have been 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 (released)
August 3, 2013	8,851,200 (released)
February 3, 2014	8,851,200 (released)
August 3, 2014	6,713,400 (released)
Total	**46,394,334**

OFF-BALANCE SHEET ARRANGEMENTS

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

ADOPTION OF NEW OR REVISED IFRSs

The Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended December 31, 2013, other than the following new standard that was adopted by the Company effective January 1, 2014.

a) **IAS 32 – Financial Instruments: Presentation**

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of "currently has a legally enforceable right of set-of," the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The Company concluded that the adoption of this standard does not have a material impact on its financial statements.

b) **IAS 36 – Impairment of Assets**

The amendments to IAS 36 outline the additional disclosures that will be required with regards to the recoverable amount of impaired assets. The Company concluded that the application of this IAS did not have any material impact on the disclosures for the current or prior years but may affect the disclosures of future transactions or arrangements.

c) **International Financial Reporting Interpretations Committee Interpretation ("IFRIC") 21 – Levies**

This interpretation clarifies the accounting treatment for a liability to pay a levy, where a levy is an outflow of economic benefits imposed by governments on entities in accordance with legislation. The Company concluded that the application of this IFRIC does not have any material impact on its financial statements.

NON-IFRS DISCLOSURES

NZEC uses certain terms for measurement within this MD&A that do not have standardized meanings prescribed by IFRS, and these measurements may differ from other companies' and accordingly may not be comparable to measures used by other companies. The term "field netback" is not a recognized measure under the applicable IFRSs. Management of the Company believes that this measure is useful to provide shareholders and potential investors with additional information, in addition to profit and loss and cash flow from operating activities as defined by IFRS, for evaluating the Company's operating performance. Field netback is reconciled as follows to the Company's condensed consolidated financial statements for the three and six-month periods ended June 30, 2014 and 2013:

	Three months ended June 30, 2014 $	**Three months ended June 30, 2013 $**	**Six months ended June 30, 2014 $**	**Six months ended June 30, 2013 $**
Revenue				
Oil sales	2,410,404	2,216,815	4,510,950	5,277,878
Royalties	(194,364)	(107,115)	(415,996)	(242,920)
	2,216,040	2,109,700	4,094,954	5,034,958
Production costs	(884,587)	(1,616,471)	(1,664,702)	(3,307,876)
Subtotal (a)	1,331,453	493,229	2,430,252	1,727,082
Barrels of oil sold (b)	20,390	21,958	38,020	49,204
Field netback [(a)/(b)] $/bbl	65.30	22.46	63.92	35.10

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at June 30, 2014, the Company had 170,873,459 common shares outstanding.

As of the date of this MD&A, the Company's share capitalization included 170,873,459 common shares, 24,452,173 warrants, 3,045,849 advisor warrants and 10,958,200 stock options, of which 7,422,400 stock options have vested and 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 only reasonable assurance with respect to financial statement preparation and presentation.

Management has overseen the design and evaluation of internal controls over financial reporting and has 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 document 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 "will", "objective", "plan", "seek", "expect", "potential", "pursue", "subject to", "can", "could", "hopeful", "contingent", "anticipate", "look forward", 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. Such forward-looking statements should not be unduly relied upon. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. This document contains forward-looking statements and assumptions pertaining to the following: business strategy, strength and focus; the granting of regulatory approvals; the timing for receipt of regulatory approvals; geological and engineering estimates relating to the resource potential of the properties; the estimated quantity and quality of the Company's oil and natural gas resources; supply and demand for oil and natural gas and the Company's ability to market crude oil and natural gas; expectations regarding the Company's ability to continually add to reserves and resources through acquisitions and development; the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the Company's ability to raise capital on appropriate terms, or at all; the ability of the Company's subsidiaries to obtain mining permits and access rights in respect of land and resource and environmental consents; the recoverability of the Company's crude oil, natural gas reserves and resources; and future capital expenditures to be made by the Company. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in the document, such as the speculative nature of exploration, appraisal and development of oil and natural gas properties; uncertainties associated with estimating oil and natural gas resources; changes in the cost of operations, including costs of extracting and delivering oil and natural gas to market, 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. Readers are cautioned that the foregoing list of factors is not exhaustive. Statements relating to "reserves and resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources described can be profitably produced in the future. This document includes references to management's forecasts of future development, probability of success, production and cash flows from such operations, which represent management's best estimates at the time. The forward-looking statements contained in the document are expressly qualified by this cautionary statement. These statements speak only as of the date of this document and the Company does not undertake to update any forward-looking statements that are contained in this document, except in accordance with applicable securities laws.

CAUTIONARY NOTE REGARDING RESERVE & RESOURCE ESTIMATES

The oil and gas reserves calculations and income projections were estimated in accordance with the Canadian Oil and Gas Evaluation Handbook ("COGEH") and National Instrument 51-101 ("NI 51-101"). The term barrels of oil equivalent ("boe") may be misleading, particularly if used in isolation. A boe conversion ratio of six Mcf: one bbl was used by NZEC. This 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. Reserves are estimated remaining quantities of oil and natural gas and related substances anticipated to be recoverable from known accumulations, as of a given date, based on: the analysis of drilling, geological, geophysical, and engineering data; the use of established technology; and specified economic conditions, which are generally accepted as being reasonable. Reserves are classified according to the degree of certainty associated with the estimates. Proved Reserves are those reserves that can be estimated with a high degree of certainty to be recoverable. It is likely that the actual remaining quantities recovered will exceed the estimated proved reserves. Probable Reserves are those additional reserves that are less certain to be recovered than proved reserves. It is equally likely that the actual remaining quantities recovered will be greater or less than the sum of the estimated proved plus probable reserves. Revenue projections presented are based in part on forecasts of market prices, current exchange rates, inflation, market demand and government policy which are subject to uncertainties and may in future differ materially from the forecasts above. Present values of future net revenues do not necessarily represent the fair market value of the reserves evaluated. The report also contains forward-looking statements including expectations of future production and capital expenditures. Information concerning reserves may also be deemed to be forward looking as estimates imply that the reserves described can be profitably produced in the future. These statements are based on current expectations that involve a number of risks and uncertainties, which could cause the actual results to differ from those anticipated. Contingent resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingencies may include factors such as economic, legal, environmental, political and regulatory matters, or a lack of markets. Prospective resources are those quantities of oil and gas estimated on a given date to be potentially recoverable from undiscovered accumulations. The resources reported are estimates only and there is no certainty that any portion of the reported resources will be discovered and that, if discovered, it will be economically viable or technically feasible to produce.