Third Quarter 2014
Management's Discussion and Analysis

September 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 September 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 November 26, 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 (the "TWN Acquisition"), NZEC holds a 50% interest with L&M Energy Limited ("L&M") in the Waihapa Production Station and associated gathering and sales infrastructure (collectively the "TWN Assets"), PML 38138 (the "Tariki License"), PML 38140 (the "Waihapa License") and PML 38141 (the "Ngaere License") (collectively the "TWN Licenses"). 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.

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.

The Company is actively pursuing opportunities to expand its financial capacity in order to accelerate the drilling of new exploration wells and also to carry out a number of previously identified development activities. As the first step of its capital rebuilding program, NZEC has secured a working capital facility with New Dawn Energy Limited ("New Dawn"), the parent company of L&M, for up to NZ$5 million. The Company is also looking for funding or farm-in partners at both the permit and corporate level.

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 pursuing opportunities to expand its financial capacity in order to accelerate the drilling of new wells, and expects to focus its exploration activities in the near-term on the Mt. Messenger and Tikorangi formations.

Exploration of the deeper Kapuni Formation, which has been highly productive on offsetting permits, is expected to be only undertaken with a new joint venture partner in order 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, and is actively pursuing opportunities to expand the Company's financial capacity and accelerate exploration and development activities on its permits, some of which may include new farm-in and joint venture partnerships.

FINANCIAL SNAPSHOT

	Nine months ended September 30, 2014	Three months ended September 30, 2014	Nine months ended September 30, 2013	Three months ended September 30, 2013
Production	57,436 bbl	18,689 bbl	60,694 bbl	11,958 bbl
Sales	54,517 bbl	16,497 bbl	63,852 bbl	14,648 bbl
Price	115.53 $/bbl	108.35 $/bbl	107.63 $/bbl	108.84 $/bbl
Production costs	38.96 $/bbl	27.83 $/bbl	62.08 $/bbl	44.80 $/bbl
Royalties	10.50 $/bbl	9.48 $/bbl	4.98 $/bbl	5.14 $/bbl
Field netback	66.08 $/bbl	71.04 $/bbl	40.57 $/bbl	58.90 $/bbl
Revenue	$11,500,722	$2,104,561	$6,553,968	$1,519,010
Pre-production recoveries	$Nil	$Nil	$Nil	$Nil
Total comprehensive (loss) income	($13,704,362)	($8,540,759)	($3,339,589)	$1,347,788
Net finance expense	$224,275	$72,318	$66,794	$27,220
Loss per share – basic and diluted	($0.08)	($0.01)	($0.06)	($0.02))
Current assets	$5,682,843		$6,403,134	
Total assets	$98,459,282		$105,313,813	
Total long-term liabilities	$7,793,085		$11,094,916	
Total liabilities	$10,109,911		$12,749,253	
Shareholders' equity	$88,349,371		$92,564,560	

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

At the date of this MD&A, the Company had an estimated $1.3 million in working capital (excluding materials and supplies of approximately NZ$1.9 million).

RECENT DEVELOPMENTS

On July 29, 2014, the Company announced that it 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 is required to conserve the gas being extracted from the wells and, in order to achieve this, the Company has agreed to build a gas pipeline of approximately 1.3 km within 18 months which would connect 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.

During the quarter ended September 30, 2014, the Company continued with further steps to right-size the organization and reduce overhead, including a deferral of 33% of the then CEO's monthly cash compensation. The Company also secured a working capital facility (the "Facility") with New Dawn Energy ("New Dawn", the parent company of L&M) for up to NZ$5

million. The Company may draw down the Facility to fund its share of expenditures and equipment required to advance the TWN Licences and TWN Assets, and for other working capital purposes as agreed to by New Dawn. The Facility, to the extent drawn down, will bear interest at 12% per annum with a maturity date of March 31, 2015, or as extended by agreement. Interest is payable monthly, or may be capitalized with New Dawn's consent, while NZEC may prepay all or part of the Facility at any point without penalty. NZEC's obligations under the Facility are secured against the Company's 50% interest in the TWN Limited Partnership, the legal owner of the TWN Assets, and the Company's 50% interest in NZEC Ngaere Limited, the general partner of the TWN Limited Partnership. Security to the Facility does not extend to any of the Company's oil and gas or exploration properties.

On October 1, 2014, the Company received TSX Venture Exchange approval to extend the expiry date of 24,452,178 share purchase warrants issued pursuant to a non-brokered private placement financing in November 2013. The expiry date for the share purchase warrants was extended by a year to October 28, 2015. The exercise price of the warrants is unchanged, at $0.45 per share. Pursuant to TSX Venture Exchange policies, the Company was not permitted to amend warrants issued to finders in connection with the private placement.

Also during October 2014, the Company and L&M obtained an extension to November 22, 2015 for drilling of the Horoi commitment well on the Alton Permit.

On November 24, 2014, the Company announced that in an effort to further reduce costs and rightsize the business, the Company will close its Vancouver, Canada office on December 31, 2014. The Company's Board of Directors also resolved to terminate the management agreement between the Company and J. Proust and Associates, effective December 31, 2014. J. Proust and Associates has been providing a number of management services to NZEC, including accounting support and corporate secretary, investor relations and financial reporting and analysis services. All of these services will be absorbed by the Company's New Zealand-based staff, or outsourced as required. Following these resolutions, NZEC's Vice President Finance, Gerrie van der Westhuizen, Vice President Communications & Investor Relations, Rhylin Bailie, and Corporate Secretary, Eileen Au, all resigned as officers of the Company effective November 23, 2014, but will continue to support the Company through to December 31, 2014.

Also on November 24, 2014 the Company announced that David Robinson, previously CEO of the New Zealand Business, has assumed the position of CEO of NZEC with immediate effect. John Proust, founder, CEO and a director of the Company until November 23, 2014, will continue on the Board of Directors as a non-executive director.

OPERATING RESULTS

Nine-month Operating Results

During the nine-month period ended September 30, 2014, the Company produced 57,436 bbl and sold 54,517 bbl for total oil sales of $6,298,344, with an average oil sale price of $115.53 per bbl. Total recorded revenue from produced oil, 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 $5,726,034. Production costs during the nine-month period ended September 30, 2014 totalled $2,123,804, or an average of $38.96 per bbl, generating an average field netback of $66.08 per bbl during the period.

The Company also received $1,283,427 of processing revenue from its interest in the TWN Assets, where it provides a wide range of services to third parties including oil handling and pipeline throughput services, gas processing, and handling and disposal of produced water. The associated processing cost for the nine-month period ended September 30, 2014 was $691,224, resulting in a gross contribution of $592,203 from the Company's interest in midstream assets before taking into account general and administrative costs or depreciation.

The increase in netback during the nine-month period ended September 30, 2014, when compared to the same period in 2013, is attributed partly to a higher oil sales price in light of the strengthening of the US dollar against the Canadian dollar. Most notably, however, the increase in netback is 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 nine-month period ended September 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 21,591 bbl net to NZEC. The Company undertook a number of reservoir and production tests on the TWN wells during the period with the objective of optimizing oil production, and these tests added to production costs. During the period the Company also produced a total of 35,845 bbl from three wells on the Copper Moki Permit. Production from the Copper Moki field has been stable year to date, with virtually no decline in production rates over the first nine months of 2014.

Reduced production cost during the nine-month period ended September 30, 2014 of $2,123,804, compared to $3,964,141 for the same period in 2013, is reflective of the reduced cost associated with operating the Company-owned production facilities, relative to the cost of outsourced production services in the first half of 2013.

During the nine-month period ended September 30, 2014, the Company incurred $4,972,301 in general and administrative costs (2013: $4,340,863) and recorded a depreciation expense of $2,785,011 (2013: $2,403,543).

Three-month Operating Results

During the three-month period ended September 30, 2014, the Company produced 18,689 bbl and sold 16,497 bbl for total oil sales of $1,787,395, with an average oil sale price of $108.35 per bbl. Total recorded revenue from produced oil, net of royalties payable to the New Zealand Government and, in the case of hydrocarbons produced from the TWN Licenses, to Origin, was $1,631,080. Production costs during the three-month period ended September 30, 2014 totalled $459,102 or an average of $27.83 per bbl, generating an average field netback of $71.04 per bbl during the period.

The Company also received $420,860 of processing revenue from the Company's interest in the TWN Assets, where it provides a wide range of services to third parties, including oil handling and pipeline throughput services, gas processing, and handling and disposal of produced water. The associated processing cost for the three-month period ended September 30, 2014 was $101,265, resulting in a gross contribution of $319,595 from the Company's interest in midstream assets before taking into account general and administrative costs or depreciation.

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 5,232 bbl net to NZEC. This resulted in an overall decrease in production (total 18,689 bbl) compared to the previous quarter (total 19,066 bbl). The Company achieved an overall field netback of $71.04 per bbl for the three months ended September 30, 2014, compared to $65.30 per bbl during the previous quarter ended June 30, 2014. The higher netback is due to a reduction in reported production costs and royalties.

During the three-month period ended September 30, 2014, the Company incurred $1,707,520 in general and administrative costs (2013: $1,132,267) and recorded a depreciation expense of $1,088,238 (2013: $537,263).

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% (at December 31, 2013) 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.

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 or reactivated 12 wells to production: four on the Copper Moki Permit and eight on the TWN Licenses. In early November 2014, however, the Company decided to permanently shut-in and plug the Toko-2B well on the TWN Licenses, giving the Company net 11 wells capable of producing oil. 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.

[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 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.

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.

Production and Processing Revenue

Total corporate production during the first nine months of 2014 averaged 215 bbl/d net to NZEC. Total corporate production during the third quarter averaged 202 bbl/d in July, 205 bbl/d in August and 205 bbl/d in September. Production in October averaged 214 bbl/d, and 184 bbl/day in November for an average of 200 bbl/d net to NZEC. Production fluctuations month to month are largely the result of optimization efforts on the TWN Licenses. The TWN wells are now operating on a rest and recovery mode rotation, which is intended to optimize production by allowing the hydrocarbons more time to migrate to the well bore, which then yield flush production.

The Company and L&M continue 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 $2.3 million net to NZEC.

Production from the three Copper Moki Permit wells that are in production has remained stable during the first nine months of the year. 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.

TWN Licenses

NZEC and L&M formed the 50/50 TWN Joint Arrangement ("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 66,462 bbl produced since closing of the TWN Acquisition (33,231 bbl net to NZEC), with cumulative pre-tax oil sales net to NZEC of approximately $3.5 million (net results of operations are discussed under *Results of Operations*). All of the wells produce light ~41° 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.

In an effort to optimize production, in April 2014 the TWN JA installed a 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 well did not reach the anticipated production levels and consequently the TWN JA shut-in the well in early November. The TWN JA is evaluating the possibility of relocating the ESP to another of the previously reactivated Tikorangi wells. The TWN JA also has a second ESP in inventory that could be installed at a later date. Technical information obtained from Toko-2B, along with down-hole surveys that have been completed in the other reactivated wells, has greatly enhanced the TWN JA's understanding of the TWN License reservoirs and will assist in planning additional optimization activities at other TWN wells.

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 was shut-in pending installation of a different artificial lift system. The TWN JA 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. Following a detailed design by an independent engineering firm, in October 2014 the TWN JA recompleted the well with dual packers to segregate the upper and lower Mt. Messenger zones and installed the down-hole equipment required for jet-pump operation. 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 commenced construction of surface facilities in late October and is on track to complete the work in the first week of December; the Waihapa-2 well is expected to resume production soon after.

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.

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 initial revenue earned being applied as the TWN JA's contribution to the capital cost originally incurred by the counterparty. The TWN JA fulfilled its capital contribution at the end of August 2014, from which point forward the TWN JA has been receiving the proceeds from the revenue associated with this arrangement. Total revenue to date arising from this arrangement amounted to approximately $395,000 with the TWN JA's contribution to capital cost totalling $234,000.

Eltham Permit and Copper Moki Permit

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 was 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 was 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 287,190 bbl from its Copper Moki Permit wells (including oil produced during testing), with cumulative pre-tax oil sales from inception of approximately $30.7 million (net results of operations are discussed under *Results of Operations*). Production from the Copper Moki wells has been stable year to date, with virtually no decline in production rates during the first nine 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° 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 gas, 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 7 terrajoules of Copper Moki natural gas production to a third-party.

Alton Permit

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 prompted the Company to lodge an appeal for mediation. In order to allow time for the appeal and mediation, the Company and L&M have been granted an extension to November 22, 2015 to drill the commitment well.

NZEC is actively seeking farm-in partnerships to allow the Company to accelerate exploration of additional 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 actively seeking a farm-in partner to fund additional exploration and development in return for an interest in the East Cape 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-Q3 $	2014-Q2 $	2014-Q1 $	2013-Q4 $
Total assets	98,459,282	107,513,101	124,788,600	116,782,687
Exploration and evaluation assets	43,072,192	46,476,829	56,876,779	51,500,037
Property, plant and equipment	48,815,452	53,409,032	54,786,347	49,169,997
Working capital	3,366,017	3,652,514	5,299,434	6,878,152
Revenues	2,104,561	3,091,139	6,320,949	4,108,911
Accumulated deficit	(48,965,855)	(47,287,210)	(37,122,556)	(35,099,834)
Total comprehensive (loss) income	(8,540,759)	(13,616,047)	8,452,444	(5,963,723)
Basic loss per share	(0.01)	(0.06)	(0.01)	(0.06)
Diluted loss per share	(0.01)	(0.06)	(0.01)	(0.06)

	2013-Q3 $	2013-Q2 $	2013-Q1 $	2012-Q4 $
Total assets	105,313,813	127,318,182	129,545,992	116,059,939
Exploration and evaluation assets	55,859,632	52,357,470	49,610,922	37,379,726
Property, plant and equipment	26,621,043	26,135,651	25,793,089	23,867,758
Working capital	4,748,797	9,517,742	17,533,636	28,293,845
Revenues	1,519,010	2,109,700	2,925,258	2,948,041
Accumulated deficit	(27,292,947)	(24,616,053)	(22,386,089)	(19,992,243)
Total comprehensive (loss) income	1,347,788	(6,000,775)	1,313,397	(1,333,805)
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.* Though the Company has not yet achieved break-even production during Q3-2014, the majority of the total comprehensive loss for this quarter is attributable to non-cash adjustments such as foreign exchange adjustments and depreciation.

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. In addition, effective December 31, 2014, the Company will close its Vancouver, Canada office and terminate its management agreement with J. Proust and Associates. Services previously provided by the Vancouver office will be absorbed by the Company's New Zealand-based staff, or outsourced as required.

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

Revenue

During the three-month period ended September 30, 2014, the Company produced 18,689 bbl (2013: 11,958 bbl) of oil and sold 16,497 bbl (2013: 14,648 bbl) for total oil sales of $1,787,395 (2013: $1,594,302), or $108.35 per bbl (2013: $108.84 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, replace down-hole equipment and to collect reservoir and well data.

During the three-month period ended September 30, 2014, the Company recorded sales from purchased oil, gas and condensate of $Nil, $43,839 and $Nil, respectively (2013: $Nil, $Nil and $Nil). The Company also received $420,860 of processing revenue (2013: $Nil) from the Company's interest in the Waihapa Production Station.

Total recorded revenue during the three-month period ended September 30, 2014 was $2,104,561 (2013: $1,519,010) which is accounted for net of royalties of $156,315 (2013: $75,292).

Expenses and Other Items

Production costs related to oil sales during the three-month period ended September 30, 2014 totalled $459,102 (2013: $656,264) or $27.83 per bbl (2013: $44.80 per bbl). The decrease in production costs in Q3-2014 compared to Q3-2013 was the result of cost efficiencies due to the installation of production facilities on the Copper Moki Permit.

Processing costs of $101,265 (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 September 30, 2014 totalled $1,088,238 (2013: $537,263), or $65.97 per bbl of oil sold (2013: $36.68 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 September 30, 2014 resulted in an expense of $109,014 (2013: $531,554). The decrease is because of current-quarter adjustments resulting from the forfeiture of options by employees and consultants who left the Company.

General and administrative expenses for the three-month period ended September 30, 2014 was higher compared to the previous period at $1,707,520 (2013: $1,132,267). The higher general and administrative expenses for the current three-month period reflect the cost of additional personnel associated with operating the TWN Assets, which were acquired in Q4-2013. A larger portion of the Company's overhead is also being expensed during 2014 as the Company reduced its focus on exploration in light of the relinquishment of a number of exploration permits.

Net finance expense for the three-month period ended September 30, 2014 totalled $72,318 (2013: $27,220). During the three-month period ended September 30, 2014, the Company's finance expense increased compared to the previous quarter as net finance expense related mainly to accretion expense due to higher asset retirement obligations incurred from the acquisition of the TWN Licenses and TWN Assets, compared to the accretion expense recognized in Q3-2013.

Total Comprehensive Loss

Total comprehensive loss for the three-month period ended September 30, 2014 totalled $8,540,759 after taking into account a foreign translation reserve loss of $6,862,114 on the translation of foreign operations and monetary items that form part of NZEC's net investment in foreign operations. Total comprehensive gain for the comparable period in 2013 was $1,347,788.

Based on a weighted average shares outstanding balance of 170,873,459, the Company realized a $0.01 basic and diluted loss per share for the three-month period ended September 30, 2014. During the three-month period ended September 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 NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2014

Revenue

During the nine-month period ended September 30, 2014, the Company produced 57,436 bbl of oil (2013: 60,694 bbl) and sold 54,517 bbl (2013: 63,852 bbl) for total oil sales of $6,298,345 (2013: $6,872,180), or $115.53 per bbl (2013: $107.63). Reduced production in 2014 is the result of production declines in the Copper Moki wells, compared to the same period in 2013 (though production from the Copper Moki wells have remained virtually unchanged since the beginning of 2014).

During the nine-month period ended September 30, 2014, the Company recorded sales from purchased oil, gas and condensate of $2,885,717, $85,882 and $1,491,358 respectively (2013: $Nil, $Nil and $Nil). The Company also received $1,283,427 of processing revenue (2013: $Nil) from the Company's interest in the Waihapa Production Station.

Total recorded gross production revenue was $11,500,722 (2013: $6,553,968), which accounted for royalties of $572,311 (2013: $318,212), or $10.50 per bbl sold (2013: $4.98 per bbl).

Expenses and Other Items

Production costs during the nine-month period ended September 30, 2014 totalled $2,123,803 (2013: $3,964,141), or $38.96 per bbl sold (2013: $63,852 per bbl). Included in the 2014 production costs are all site-related expenditures, including applicable equipment rental fees, transportation, and storage. The decrease in production costs in the nine-month period ended September 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 lower variable production costs, stemming from lower production levels compared to the nine-month period ended September 30, 2013. During the nine-month period ended September 30, 2014, the Company also recognized $4,377,075 in costs directly related to the sale of purchased oil and condensate (2013: $Nil).

Processing costs of $691,224 (2013: $Nil) relate to direct costs associated with operation of the TWN Assets, which were acquired in Q4-2013.

Depreciation costs incurred during the nine-month period ended September 30, 2014 totalled $2,785,011 (2013: $2,403,543), or $51.09 per bbl sold (2013: $37.64 per bbl). Depreciation is based on using the unit-of-production method with reference to the ratio of production in the period to the 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 nine-month period ended September 30, 2014 totalled $504,226 compared to $1,312,011 during the same period in 2013. The decrease in stock-based compensation corresponds to a lower fair value per option granted, whilst also reflecting the downward adjustments resulting from the forfeiture of options by employees and consultants who left the Company

General and administrative expenses for the nine-month period ended September 30, 2014 totalled $4,972,301 compared to $4,340,863 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. A larger portion of the Company's overhead is also being expensed during 2014 as the Company reduced its focus on exploration in light of the relinquishment of a number of exploration permits.

Transaction costs for the nine-month period ended September 30, 2014 totalled $Nil compared to $1,638,738 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 nine-month period ended September 30, 2014 totalled $224,275 compared to net finance expense of $66,794 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 nine-month period ended September 30, 2014 totalled $13,704,362 after taking into account a loss on the exchange difference on translation of foreign currency of $161,659, which compares to total comprehensive loss for the nine-month period ended September 30, 2013 of $3,339,589.

Based on a weighted average shares outstanding balance of 170,873,459, the Company realized a $0.08 basic and diluted loss per share for the nine-month period ended September 30, 2014. During the period ended September 30, 2013, based on a weighted average shares outstanding balance of 121,957,383, the Company realized a $0.06 basic and diluted loss per share.

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES

Taranaki Basin

During the nine-month period ended September 30, 2014, the Company recorded $113,417 in exploration and evaluation expenditures on its Taranaki Basin permits, a negative foreign currency translation adjustment of $293,177, an addition of $4,106 in capitalized asset retirement provisions, and an impairment of $535,742 with regard to the Manaia Permit.

East Coast Basin

During the nine-month period ended September 30, 2014, the company capitalized $219,363 of overhead costs to the East Cape Permit. The company also recognized a negative foreign currency translation exchange of $15,387.

The Company incurred $147,481 of exploration and evaluation expenditures on the Castlepoint Permit, $84,687 on the Wairoa Permit and $219,363 on the East Cape Permit during the nine-month period ended September 30, 2014. The Company subsequently 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 September 30, 2014, following the decision to relinquish both these permits.

CAPITAL SPENDING

During the nine-month period ended September 30, 2014, cumulative expenditure of property, plant and equipment increased to $59,140,031 from $56,990,541 in the prior period. Current year additions included a $124,953 addition for furniture and fixtures, an addition of $2,675,354 to oil and gas properties, a reduction in plant and equipment of $512,777, an increased asset retirement cost of $455,215, and a negative foreign currency translation and other adjustments of $570,271.

During the nine-month period ended September 30, 2014, exploration and evaluation assets decreased by $8,427,845, from $51,500,037 to $43,072,192. The Company had a reduction of $691,396 in exploration, evaluation and overhead costs associated with the Taranaki Basin, of which $129,707 related specifically to the Eltham Permit (before the addition in estimate of asset retirement obligation of $4,106), $137,506 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 $147,481 of exploration and evaluation expenditures on the Castlepoint Permit, $84,687 on the Wairoa Permit and $219,363 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 September 30, 2014, the Company had the following undiscounted contractual obligations:

	2014	2015 to 2016	2017 and onwards	Total
Accounts payable	1,893,856	-	-	1,893,856
Working Capital Facility	74,634	-	-	74,634
Operating lease obligations (1)	52,615	439,022	147,849	639,486
Contract and purchase commitments (2)	751,666	475,061	1,125,432	2,352,159
Environmental obligations (3)	355,608	1,089,836	15,871,413	17,316,857
Minimum work program requirements (4)	2,718,636	14,831,250	14,450,000	31,999,886
Total	**$5,847,015**	**$ 16,835,169**	**$ 31,594,694**	**$ 54,276,878**

(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 recognized an undiscounted asset retirement obligation of $17.32 million.
(4) The Company has various ongoing minimum work program commitments that are associated with the Company's interest in exploration and evaluation assets. As at September 30, 2014, all of the minimum work program requirements for 2014 ($2,718,363) relate to the Company's exploration permits and none to the producing oil and gas properties. Should the Company elect not to carry out the minimum work program commitments pertaining to a specific permit, the Company will relinquish its interest in the relevant permit. Subsequent to the period ended September 30, 2014, the Company was granted an extension to November 22, 2015 for drilling of a commitment well on the Alton Permit, which defers $2,692,800 of the work program commitments (presented as part of 2014 in the table above), to 2015. Thus, the remaining work program commitments for 2014 would amount to $25,836.

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 nine-month period ended September 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. Subsequent to the quarter ended September 30, 2014, the Company and L&M received an extension to November 22, 2015 for drilling of the commitment well on the Alton permit, deferring the estimated cost associated with drilling of the commitment well to 2015.

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 September 30, 2014. As at September 30, 2014, all of the minimum work program requirements for 2014 ($2,718,636) 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)	8,500	442,000	-	3,825,000	-	4,275,500
Alton Permit (3)	2,692,800	-	2,448,000	-	-	5,140,800
	2,701,300	442,000	2,448,000	3,825,000	-	9,416,300
East Coast Basin						
East Cape Permit (4)	17,336	2,465,000	9,476,250	5,312,500	5,312,500	22,583,586
	17,336	2,465,000	9,476,250	5,312,500	5,312,500	22,583,586
Total	**2,718,636**	**2,907,000**	**11,924,250**	**9,137,500**	**5,312,500**	**31,999,886**

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 work program for the Alton Permit required 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 and L&M has requested an extension to the drill date and during October

2014, the Company and L&M was granted an extension to November 22, 2015 for drilling of the commitment well on the Alton permit. This defers $2,877,568 of the work program commitments (presented as part of 2014 in the table above), to 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 September 30, 2014, the Company had $787,114 in cash and cash equivalents (December 31, 2013: $4,902,888) and $3,366,017 in working capital (December 31, 2013: $6,878,152). During the nine-month period ended September 30, 2014, the Company disposed of a number of non-core assets for total net proceeds of $1,337,560, which contributed to the Company's working capital at September 30, 2014.

As the first step of its capital rebuilding program, NZEC has secured the "Facility with New Dawn for up to NZ$5 million. The Facility, to the extent drawn down, will bear interest at 12% per annum with a maturity date of March 31, 2015, or as extended by agreement. Interest is payable monthly and may be capitalized with New Dawn's consent, while the Company may prepay all or part of the Facility at any point without penalty. The Company's obligations under the Facility are secured against the Company's 50% interest in the TWN Limited Partnership, and its 50% interest in NZEC Ngaere Limited, but security does not extend to any of the Company's oil and gas or exploration properties. The Company is allowed to draw down on the Facility in order to fund its share of expenditures and equipment required to advance the TWN Licenses and TWN Assets, and for working capital purposes as agreed to by New Dawn. As at September 30, 2014, the Company had borrowed $74,634, with an additional NZ$316,211 drawn down in advances and capitalized interest since September 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 on its ability to expand its financial capacity in order to:

i) repay its obligations (including the Facility from New Dawn) as they become due; and also
ii) fund near-term development activities with the expectation of generating positive cash flow from operations.

The Company's ability to expand its financial capacity, the success of the intended development activities, or whether sufficiently profitable operations will be attained from the intended 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 nine-month period ended September 30, 2014, the Company generated a net loss of $13,866,021 (2013: $7,300,704). Non-cash income statement amounts recorded during the period included $504,226 in stock-based compensation (2013: $1,312,011), $3,018,772 in depreciation and accretion (2013: $2,486,306), and $15,279 in foreign exchange loss (2013: $344,051). The total decrease to non-cash working capital items during the period amounted to $369,064 (2013: increase of $1,778,373) resulting in aggregate cash used in operating activities of $1,146,092 (2013: $1,104,479).

Investing Activities

For the nine-month period ended September 30, 2014, the Company incurred $757,808 in expenditures on its resource properties (2013: $21,362,049). The Company incurred $148,133 in development of a proprietary database and software (2013: $137,759) and $3,476,359 for the purchase of property and equipment (2013: $4,860,420). The Company received $1,337,560 from the disposition of assets held for sale (2013: $Nil). During the nine-month period ended September 30, 2013, the Company made deposits of $1,000,000 and withdrew an outstanding balance of 37,551,728 from term deposit. Total cash used by investing activities for the period was $3,044,740 (2013: total cash provided of $758,720).

Financing Activities

During the nine-month period ended September 30, 2014, the Company drew down $30,650 from its working capital facility (2013: $Nil) to fund its share of expenditures required to advance the TWN licences and TWN Assets.

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, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
	$	$	$	$
Salary and management fees	508,569	763,362	1,847,148	2,233,953
Share-based compensation	68,869	289,449	258,785	1,241,970
	577,438	1,052,811	2,105,933	3,475,923

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Included in the amounts above are $927,500 (2013: $819,000) in management fees paid to J. Proust and Associates Inc., an entity with officers in common. The management fee is inclusive of administrative, finance, accounting, legal, investor relations and management consulting services provided by various employees of J. Proust and Associates.

During the quarter ended September 30, 2014, 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.

Subsequent to the quarter-end, the Board of Directors resolved to terminate the management agreement between the Company and J. Proust and Associates effective December 31, 2014.

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
February 3, 2012	300,000
July 19, 2012	5,853,934
August 3, 2012	6,773,400
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**

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 standards that were 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.

Standards issued but not yet effective:

a) **IFRS 9 - Financial Instruments**

This IFRS introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39 - Financial Instruments: Recognition and measurement, derecognition of financial assets and financial liabilities. The Company will assess this pronouncement for any future impact it may have 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 nine-month periods ended September 30, 2014 and 2013:

	Three months ended September 30, 2014 $	**Three months ended September 30, 2013 $**	**Nine months ended September 30, 2014 $**	**Nine months ended September 30, 2013 $**
Revenue				
Oil sales	1,787,395	1,594,302	6,298,344	6,872,180
Royalties	(156,315)	(75,292)	(572,311)	(318,212)
	1,631,080	1,519,010	5,726,033	6,553,968
Production costs	(459,102)	(656,264)	(2,123,804)	(3,964,141)
Subtotal (a)	1,171,978	862,746	3,602,229	2,589,827
Barrels of oil sold (b)	16,497	14,648	54,517	63,852
Field netback [(a)/(b)] $/bbl	71.04	58.90	66.08	40.57

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at September 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 and 8,900,950 stock options, of which 5,946,650 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.