NEW ZEALAND ENERGY CORP.

Consolidated Financial Statements

Year Ended 31 December 2015

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

Management of New Zealand Energy Corp. (the "Company") is responsible for the reliability and integrity of the consolidated financial statements, and the notes to the consolidated financial statements.

The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board. Since a precise determination of many assets and liabilities is dependent on future events, the timely preparation of financial statements requires that management make estimates and assumptions and use judgment. When alternate accounting methods exist, management has chosen those that it deems most appropriate in the circumstances.

PricewaterhouseCoopers LLP, an independent firm of Chartered Professional Accountants, were appointed by shareholders as the external auditor of the Company to express an audit opinion on the consolidated financial statements. Their examination included such tests and procedures as they considered necessary to provide reasonable assurance that the consolidated financial statements are in accordance with International Financial Reporting Standards.

The Board of Directors is responsible for ensuring that management fulfils its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee. The Audit Committee recommends appointment of the external auditors to the Board, ensures their independence and approves their fees. The Audit Committee meets regularly with management and the external auditors to ensure that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that the consolidated financial statements be presented to the Board for approval. The external auditors have full and unrestricted access to the Audit Committee to discuss their audit and their findings.

"Michael Adams"	*"Derek Gardiner"*
Michael Adams, Chief Executive Officer	Derek Gardiner, Chief Financial Officer

April 26, 2016

Independent Auditor's Report

To the Shareholders of New Zealand Energy Corp.

We have audited the accompanying consolidated financial statements of New Zealand Energy Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP
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Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS
As at 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015	2014
Assets		
Current	**$**	**$**
Cash and cash equivalents	431,976	1,121,967
Accounts and other receivables (Note 4)	722,144	1,344,883
Prepaid expenses	326,421	377,454
Inventories (Note 5)	2,590,748	2,665,765
	4,071,289	**5,510,069**
Non -Current		
Restricted cash	356,176	339,112
Software and proprietary database	189,432	431,949
Property, plant and equipment (Note 6)	23,583,681	23,887,382
Exploration and evaluation assets (Note 7)	-	4,193,565
	28,200,578	**34,362,077**
Liabilities		
Current		
Accounts payable and accrued liabilities	1,126,358	1,908,755
Working capital facility (Note 9)	-	411,496
Asset retirement obligation	-	367,720
	1,126,358	**2,687,971**
Asset retirement obligations (Note 8)	11,006,673	7,902,421
	12,133,031	**10,590,392**
Shareholders' equity		
Share capital (Note 10)	109,738,706	108,000,912
Foreign currency translation reserve	13,080,501	12,456,181
Share based payments reserve	22,514,355	22,521,868
Accumulated deficit	(129,266,015)	(119,207,276)
	16,067,547	**23,771,685**
	28,200,578	**34,362,077**

Description of business and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 20)

These consolidated financial statements are authorized for issuance by the Board of Directors on 26 April 2016.

On behalf of the Board of Directors

"James Willis"	*"Mark Dunphy"*
James Willis, Director	Mark Dunphy, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	Number of shares	Share capital $	Share based payments reserve (options) $	Share based payments reserve (warrants) $	Foreign currency translation reserve $	Accumulated deficit $	Total equity $
Balance, December 31, 2013	**170,873,459**	**107,160,526**	**20,477,624**	**1,339,675**	**7,567,066**	**(35,099,834)**	**101,445,057**
Units issued, at $0.05 (Note 10(a))	17,000,000	850,000	-	-	-	-	850,000
Warrants in units issued (Note 10(a,c))	-	(9,614)	-	9,614	-	-	-
Stock-based compensation (Note 10(b))	-	-	694,955	-	-	-	694,955
Net loss for the year	-	-	-	-	-	(84,107,442)	(84,107,442)
Other comprehensive income for the year	-	-	-	-	4,889,115	-	4,889,115
Balance, December 31, 2014	**187,873,459**	**108,000,912**	**21,172,579**	**1,349,289**	**12,456,181**	**(119,207,276)**	**23,771,685**
Balance, December 31, 2014	**187,873,459**	**108,000,912**	**21,172,579**	**1,349,289**	**12,456,181**	**(119,207,276)**	**23,771,685**
Units issued, at $0.04* (Note 10(a))	44,250,000	1,737,794	-	-	-	-	1,737,794
Warrants in units issued (Note 10(a,c))	-	-	-	-	-	-	-
Stock-based compensation (Note 10(b))	-	-	(7,513)	-	-	-	(7,513)
Net loss for the year	-	-	-	-	-	(10,058,739)	(10,058,739)
Other comprehensive income for the year	-	-	-	-	624,320	-	624,320
Balance, December 31, 2015	**232,123,459**	**109,738,706**	**21,165,066**	**1,349,289**	**13,080,501**	**(129,266,015)**	**16,067,547**

*Net of share issue costs

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015	2014
	$	$
Revenues (Note 11)	4,937,518	14,125,396
Expenses and other items		
Production costs	1,260,936	2,069,256
Purchased oil and condensate (Note 11)	-	4,482,911
Processing costs	938,265	1,699,489
Depreciation	1,630,961	3,738,132
Impairment (Notes 6 and 7)	5,879,387	77,078,331
Stock-based compensation (Note 10(b))	(7,513)	544,843
General and administrative (Note 12)	4,529,465	7,149,003
Debt forgiven	-	15,536
Provision for onerous contract	-	304,607
Finance expense	268,936	283,541
Loss on disposal of assets	-	666,957
Abandonment	481,828	-
Other	13,992	200,232
	14,996,257	98,232,838
Net loss for the year	**(10,058,739)**	**(84,107,442)**
Exchange difference on translation of foreign currency (i)	624,320	4,889,115
Total comprehensive loss for the year	**(9,434,419)**	**(79,218,327)**
Basic and diluted loss per share	$ (0.05)	$ (0.49)
Weighted average shares outstanding	222,182,363	171,618,664

(i) Exchange difference on translation of foreign currency may be subsequently reclassified as profit and loss.

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015	2014
	$	$
Operating activities		
Net loss for the year	(10,058,739)	(84,107,442)
Changes for non cash operating items		
Stock-based compensation	(7,513)	544,843
Depreciation and accretion	1,903,990	4,053,568
Abandonment	481,828	-
Foreign exchange loss	(35,867)	15,279
Impairment	5,879,387	77,078,331
Loss on disposal	-	666,957
Change in non-cash working capital items		
Accounts and other receivables	650,943	4,804,931
Prepaid expenses	66,525	127,222
Restricted cash	-	(4,335)
Inventories	202,066	64,647
Accounts payable and accrued liabilities	(684,765)	(5,240,723)
Cash provided by (used in) operating activities	**(1,602,145)**	**(1,996,722)**
Investing activities		
Expenditures on resource properties	(56,606)	(662,391)
Term deposit	-	79,341
Purchase of proprietary database	(32,854)	(148,133)
Purchase of property and equipment	(399,273)	(3,782,012)
Proceeds from sale of assets	-	396,049
Disposal of assets held for sale	-	1,137,553
Cash used in investing activities	**(488,733)**	**(2,979,593)**
Financing activities		
Shares issued (net of share issuance cost) (Note 10(a))	1,737,794	850,000
Operating line of credit	-	-
Working capital facility (Note 9)	(398,573)	363,905
Deferred financing cost	-	(36,840)
Cash provided by financing activities	**1,339,221**	**1,177,065**
Net decrease in cash and cash equivalents during the year	**(751,657)**	**(3,799,250)**
Effect of exchange rate changes on cash	61,666	18,329
Cash and equivalents, beginning of the year	**1,121,967**	**4,902,888**
Cash and equivalents, end of the year	**431,976**	**1,121,967**
Supplemental cash flow disclosures		
Changes in accounts payable related to exploration and evaluation assets	120,178	236,190
Changes in accounts payable related to property, plant and equipment	20,559	883,245

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

New Zealand Energy Corp. (the "Company") commenced operations on 19 April 2010 through its now wholly-owned subsidiary, East Coast Energy Ventures Limited. The Company was subsequently incorporated on 29 October 2010 under the name 0894134 B.C. Ltd. pursuant to the *Business Corporation Act* (British Columbia). On 10 November 2010, 0894134 B.C. Ltd. changed its name to New Zealand Energy Corp.

The Company, through its subsidiaries, is engaged in the exploration and production of oil and natural gas in New Zealand, as well as the operation of the midstream assets.

The Company's registered and records office is located at Suite 2800, Park Place, 666 Burrard St, Vancouver BC V6C 2Z7. The Company's principal place of business is 119-125 Devon Street East, New Plymouth, New Zealand 4310.

The Company's shares are listed on the TSX Venture Exchange under the symbol "NZ".

Going Concern

While these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the year ended 31 December 2015, the Company reported a Net Loss of $10,058,729 and a cash outflow from operating activities of $1,602,146 and as at that date, the Company had working capital of $2,944,931. The Company also has several permit expenditure plans (Note 17) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The directors consider the use of the going concern basis is appropriate.

The Company continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production (production has increased to >200b/d since January 2016), credit facilities, commercial arrangements or other financing alternatives.

The Company's ability to improve its financial capacity and the relative success, and cash flow generated from, intended operations cannot be assured.

These consolidated financial statements do not reflect adjustments in the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used, that would be necessary if the Company were unable to realize its assets and settle its liabilities in the normal course of operations. Such adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements have been prepared on a historical cost basis except as disclosed in the accounting policies. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Basis of Consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its subsidiaries. Subsidiaries are all entities over which the Company is able to exercise control. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The subsidiaries of the Company are as follows:

(Expressed in Canadian Dollars)

Company	Location	Interest
NZEC Holdings Limited (previously NZEC Riverlea Limited)	New Zealand	100%
NZEC Management Limited	New Zealand	100%
Taranaki Ventures Limited	New Zealand	100%
East Coast Energy Ventures Limited	New Zealand	100%
ECEV II Limited	New Zealand	100%
ECEV III Limited	New Zealand	100%
Waihapa Production Services Limited	New Zealand	100%
Taranaki Ventures II Limited	New Zealand	100%
NZEC Tariki Limited	New Zealand	100%
NZEC Ahuroa Limited	New Zealand	100%
NZEC Waihapa Limited	New Zealand	100%
NZEC Stratford Limited	New Zealand	100%
NZEC Wairoa Limited	New Zealand	100%
NZEC Manaia Limited	New Zealand	100%

All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

Interests in Joint Arrangements

As at 31 December 2015, the Company owned a 65% working interest in a joint arrangement to conduct oil and gas exploration activities on the Alton Permit.

The Company also owned a 50% working interest in a joint arrangement to explore, develop and operate the Tariki, Waihapa and Ngaere petroleum mining licenses (the "TWN Licenses") as well as the Waihapa Production Station ("TWN Assets") held in TWN Limited Partnership (TWN LP).

The Company has determined that these joint arrangements represent joint operations (see Note 3). The consolidated financial statements include the Company's share of the assets, liabilities and cash flows of the joint arrangements. The Company combines its share of the joint arrangements' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. Income taxes are recorded based on the Company's share of the joint arrangement's activities.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes may differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Significant accounting estimates and assumptions

The following discusses the most significant accounting estimates and assumptions that the Company has made in the preparation of the consolidated financial statements.

i) Oil and gas reserve determination

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to the proved and probable reserves and incorporating the estimated future cost to develop and extract those reserves. The process of estimating reserves (using indepenedent reserves engineers) requires significant estimates based on available geological, geophysical, engineering and economic data. The estimate of the economically recoverable oil and natural gas reserves and related future net cash flows incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs. Future development costs are estimated using assumptions as to the number of wells required to produce the reserves, the cost of such wells and associated production facilities, and other capital costs.

ii) Asset retirement obligations

The calculation of asset retirement obligations includes estimates of the future costs to settle the liability, the timing of the cash flows to settle the liability, the risk-free discount rate and the future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the consolidated financial statements of future periods may be material.

b) Significant judgements in applying the Company's accounting policies

i) Exploration and evaluation assets

Costs incurred to acquire rights to explore for oil and natural gas may be grouped into either exploration and evaluation, or property, plant and equipment, depending on facts and circumstances. Costs incurred in respect of properties that have been determined to have proved and probable reserves are classified as property, plant and equipment. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no nearby established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation assets.

ii) Determination of cash-generating units ("CGUs")

Oil and gas properties, resources properties and other corporate assets are aggregated into CGUs based on their ability to generate largely independent cash flows, and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks, and materiality, and are subject to management's judgement.

iii) Impairment indicators and calculation of impairment

The recoverability of producing asset carrying values is assessed at the CGU level. The asset composition of a CGU can directly impact the recoverability of the assets included therein. At each reporting date, the Company assesses whether or not there are circumstances that indicate a possibility that the carrying values of its CGUs are not recoverable, or impaired.

In assessing the recoverability of oil and gas properties, each CGU's carrying value is compared to its recoverable amount, defined as the greater of its fair value less costs of disposal and value in use. In estimating the recoverable amount, the Company uses the net present value of future cash flows from oil and gas reserves of each CGU with reference to the reserves estimates carried out by the Company's independent reserve evaluator.

Key input judgements and estimates used in the determination of cash flows from oil and gas reserves include the following:

a) Reserves – Assumptions that are valued at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated.

b) Oil and natural gas prices – Forward price estimates of oil and natural gas prices are used in the cash flow model. Commodity prices have fluctuated widely in recent years due to global and regional factors including supply and demand fundamentals, inventory levels, exchange rates, weather, economic and geopolitical factors.

c) Discount rate – The discount rate used to calculate the net present value of cash flows is based on estimates of an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amounts. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, relinquishment of the right to explore, or a reduction in estimates of proved and probable reserves.

iv) Interests in other entities

As part of the Company's process in determining the classification of its interests in other entities, the Company applies judgement in interpreting these interests, such as the following:

- The determination of the level of control (joint control or significant influence) held by the Company;
- The legal structure and contractual terms of the arrangement;
- When relevant, the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle; and
- When relevant, other facts and circumstances.

Joint control is considered to exist when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual agreement. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the net assets of the arrangements. Interests in joint ventures are recognized as an investment and accounted for using the equity method.

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Company's proportionate share of assets, liabilities, revenues and expenses. Judgements of whether the Company has rights to the assets and liabilities relating to arrangements include:

- Whether the Company may be exposed to liabilities by way of guarantees provided to external parties;
- Whether hydrocarbons produced from the arrangement are for the joint benefit of the Company and its partners;
- Whether preference is given to the operations of the Company and its partners when it comes to services provided by the arrangement; and
- Whether the arrangement forms a vital part of the Company's operating assets.

Foreign Currency Translation

a) Functional and presentation currency

Items included in the financial statements of each of the Company and its subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional and reporting currency of the Company is the Canadian dollar.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities of the Company that are denominated in foreign currencies are translated to the functional currency at the exchange rate prevailing at the end of each reporting period. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rate at the date of the transaction.

b) Subsidiaries and joint arrangements

The functional currency of the Company's New Zealand subsidiaries and joint arrangements is the New Zealand dollar ("NZ$").

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each statement of comprehensive loss are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments.

Foreign exchange differences arising on monetary items that form part of the Company's net investment in foreign subsidiaries are initially recognized in other comprehensive income and reclassified from equity to the statement of comprehensive loss on disposal of the net investment.

Cash and Cash Equivalents

Cash is composed of cash on hand and deposits held at banks. Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

Restricted Cash

Represents term deposits placed with a commercial bank in New Zealand to secure bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences.

Accounts and Other Receivables

Receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest rate method less any provisions for uncollectible accounts.

Inventories

Material and supply inventories consist of wellheads, tubulars and explosives purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value. The costs of purchase of material and supply inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to their acquisition.

Oil inventories, as well as any unused purchased oil and condensate, are valued at the lower of the cost and net realizable value. Cost is composed of operating expenses that have been incurred in bringing inventories to their present location and condition, and the portion of depletion expense associated with oil and condensate production. The cost of inventories is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Proprietary Database

The proprietary database is carried at cost and is amortized annually under the straight line method based on an estimated useful life of five years for seismic models and geological data.

The cost of the proprietary database consists of the purchase price and any costs directly attributable to bringing the asset to the condition necessary for its intended use.

The proprietary database is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of the proprietary database shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized as profit or loss within the consolidated statement of comprehensive loss.

Property, Plant and Equipment

a) Oil and gas properties

All costs directly associated with the development of oil and gas reserves are capitalized on an area-by-area basis. These costs include proved property acquisitions, development drillings, completion of wells, gathering facilities and infrastructure, asset retirement costs, and transfers from exploration and evaluation assets where technical feasibility and commercial viability has been determined.

The net carrying value of oil and gas properties is depreciated using the unit-of-production method by reference to the ratio of production in the year to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to bring those reserves into production.

b) Plant and equipment

Plant and equipment includes the TWN Assets, which are carried at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the items. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The depreciable amount of the asset is the cost of the asset less its residual value. Depreciation ceases to be recognized when an asset's residual value exceeds its carrying amount. The Company reviews residual values, depreciation methods and useful lives at least annually. Any changes in estimates that arise from this review are accounted for prospectively. Leasehold improvements are depreciated using the straight-line method over an estimated useful life of five years.

The TWN Assets are depreciated using the straight-line method over an estimated useful life of 25 years.

c) Furniture and fixtures

Furniture and fixtures are carried at cost, less accumulated depreciation.

The depreciable amount of the asset is the cost of the asset less its residual value. Depreciation ceases to be recognized when an asset's residual value exceeds its carrying amount. The Company reviews residual values, depreciation methods and useful lives at least annually. Any changes in estimates that arise from this review are accounted for prospectively.

Computer equipment and furniture are depreciated over the estimated useful life of the assets using the declining balance method at the following rates per annum:

Computer equipment	30%
Furniture and fixtures	20%

Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, asset retirement costs, exploration drillings, sampling and appraisals. When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. Exploration and evaluation assets can be allocated to CGUs or groups of CGUs for the purposes of assessing such assets for impairment.

Revenue Recognition

Revenue from the sale of oil and natural gas is recorded when the significant risks and rewards of ownership of the product are transferred to the buyer, which is at the delivery point. Revenue is measured at the fair value of the consideration received or receivable. Revenue is presented net of royalties.

Revenue from the purchased oil and purchased condensate is recognized when the product is delivered and title and significant risks of the product is transferred to the other party. Revenue from the purchased oil and purchased condensate is measured at the gross amount net of any relevant fees paid or payable.

Processing revenue is recognized at the time that the service has been rendered, provided that the amount can be measured reliably and management has determined that it is probable that economic benefit associated with the services will flow to the Company.

Production Costs

Production costs incurred by the Company include the transportation, day-to-day servicing of the production facilities and other costs directly relating to the revenue recognized from the oil and gas or purchased oil and condensate. Costs paid by the Company for the transportation of oil, natural gas and condensate from the wellhead to the point of title transfer are recognized when the transportation is provided.

Impairment of Non-Financial Assets

Assets that are subject to depreciation are reviewed for impairment at each reporting date to determine whether there is any indication that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment testing, development costs are allocated to CGUs to which the activity relates.

For impairment losses identified based on a CGU, the loss is allocated on a pro rata basis to the assets within the CGU. The impairment loss is recognized as an expense in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

Accounts Payable and Accrued Liabilities

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions / Restoration Provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-lived assets in the period when the liability arises. The net present value of the asset retirement obligation (discounted to its present value using an appropriate discount rate) is capitalized to the long-lived asset to which it relates with a corresponding increase to the liability in the period incurred.

Changes in the liability for an asset retirement obligation due to the passage of time are measured by applying the effective interest rate method. The amount is recognized in the statement of comprehensive loss as an increase in the liability and accretion expense.

Changes resulting from revisions to the timing, discount rates, regulatory requirements or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset. The Company's estimates are reviewed at the end of each reporting period for such changes.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity.

Common shares issued for non-monetary consideration are recorded at their fair value on the measurement date. The measurement date is defined as the earliest of the date at which the commitment for performance by the counterparty to earn the common shares is reached or the date at which the counterparty's performance is complete.

Share-based Payments and Warrants

The share option plan allows the Company's employees and consultants to acquire shares of the Company at a specified exercise price. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity over the vesting period of the options. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the non-employee received the goods or the services.

Warrants that have been issued by the Company are measured at fair value at the issue date. This value is recognized as an expense with a corresponding increase in equity.

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options or warrants vest. The fair value of the options and warrants granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options or warrants were granted. The amount of stock-based compensation or warrant recognized during a period is based on the best available estimate of the number of options or warrants that are expected to vest. On the vesting date the Company revises the estimate to equal the number of options that are ultimately vested.

Income Taxes

Any income tax on profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

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

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

Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Statement of Cash Flows

Operating activities relate to the principal revenue producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Chief Executive Officer.

Financial Instruments

a) Financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of being traded. They are included in current assets except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables are recognized at the amount expected to be received less any discount or rebate to reduce the loan and receivables to estimated fair value. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

Loans and receivables are included in cash and cash equivalents, restricted cash and accounts receivable in the consolidated balance sheet.

b) Financial liabilities

Accounts payable, accrued liabilities and operating line of credit are classified as other financial liabilities and are initially recognized at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method.

c) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each period-end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment may include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

Adoption of New or Revised IFRSs

There have been no new and revised accounting standards, interpretations or amendments effective during the year which have a material impact on the Group's accounting policies or disclosures.

Future IFRS Not Yet Effective

a) IFRS 9 – Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") is effective for annual reporting periods beginning on or after 1 January 2018. The Group does not expect any significant changes as a result of this standard..

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") is effective for annual reporting periods beginning on or after 1 January 2018. The Group has yet to determine the impact this standard will have on the financial statements.

c) IFRS 16 Leases

IFRS 16 *Leases* ("IFRS 16") is effective for annual reporting periods beginning on or after 1 January 2019. The Group has yet to determine the impact this standard will have on the financial statements.

(Expressed in Canadian Dollars)

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the Company or are not expected to have a material impact on the Group's financial statements and therefore have not been discussed.

3. JOINT ARRANGEMENTS

On 28 October 2013, the Company obtained joint control of the exploration and development of the TWN Licenses and TWN Assets through participation in a number of joint arrangements, as outlined below. The Company accounts for these joint arrangements as joint operations.

Company	Principal activity	Location	Interest
TWN Limited Partnership	Operate the TWN Assets	New Zealand	50%
Waihapa-Ngaere Joint Arrangement	Operate the Waihapa and Ngaere licenses	New Zealand	50%
Tariki Joint Arrangement	Operate the Tariki license	New Zealand	50%

As at 31 December 2015, the Company also held an interest in the Alton permit through participation in joint arrangements. The Company accounts for this joint arrangement as a joint operation.

Company	Principal activity	Location	Interest
Alton Joint Arrangement	Explore the Alton permit	New Zealand	65%

4. ACCOUNTS AND OTHER RECEIVABLES

	2015	2014
	$	$
Trade receivables	424,215	920,640
GST Receivable	5,505	57,975
Other receivables	292,424	366,268
	722,144	**1,344,883**

5. INVENTORIES

	2015	2014
	$	$
Material and supplies	2,313,456	2,232,529
Oil inventories	277,292	433,236
	2,590,748	**2,665,765**

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

Cost	Furniture and fixture $	Plant and equipment $	Land and building $	Oil and gas properties $	Total $
Balance, 31 December 2013	580,504	7,901,550	1,329,602	47,178,885	56,990,541
Additions	127,053	378,055	-	2,856,973	3,362,081
Disposals / Transfers	(217,491)	(926,875)	-	-	(1,144,366)
Impairment	-	-	-	(26,434,146)	(26,434,146)
Change in Asset retirement cost due to change in estimate	-	262,043	-	77,437	339,480
Foreign currency translation adjustment	7,285	307,099	47,040	1,957,621	2,319,045
Balance, 31 December 2014	**497,351**	**7,921,872**	**1,376,642**	**25,636,770**	**35,432,635**
Additions	10,788	41,298	-	276,321	328,407
Disposals	(95,529)	(7,425)	-	-	(102,954)
Impairment	-	-		(1,674,100)	(1,674,100)
Change in Asset retirement cost due to change in estimate	-	897,436	-	549,936	1,447,372
Foreign currency translation adjustment	11,873	442,376	69,266	1,227,411	1,750,926
Balance, 31 December 2015	**424,483**	**9,295,557**	**1,445,908**	**26,016,338**	**37,182,286**
Accumulated depreciation					
Balance, 31 December 2013	224,724	125,898	-	7,469,922	7,820,544
Depreciation and depletion	15,601	330,388	-	3,193,169	3,539,158
Transferred to assets held for sale	-	(41,571)	-	-	(41,571)
Foreign currency translation adjustment	4,424	3,642	-	219,056	227,122
Balance, 31 December 2014	**244,749**	**418,357**	**-**	**10,882,147**	**11,545,253**
Depreciation and depletion	44,386	369,908	-	1,088,616	1,502,910
Disposals	(95,529)	(7,425)	-	-	(102,954)
Foreign currency translation adjustment	3,862	42,324	-	607,210	653,396
Balance, 31 December 2015	**197,468**	**823,164**	**-**	**12,577,973**	**13,598,605**
Net book value					
Balance, 31 December 2014	**252,602**	**7,503,515**	**1,376,642**	**14,754,623**	**23,887,382**
Balance, 31 December 2015	**227,015**	**8,472,393**	**1,445,908**	**13,438,365**	**23,583,681**

At 31 December 2015, the Company assessed and concluded that the carrying value of the Copper Moki PMP CGU exceeded its fair value in use resulting in an impairment of $1.67 million (2014: Copper Moki $16.3 million and TWN Licences $10.1 million respectively). The impairment was the result of the further reduction in commodity prices and the reduction in reserve estimates relative to the prior year. The fair value was calculated using a discounted cash flow with the following key (level 3) inputs: recoverable reserve forecasts based on the externally prepared reserves report, a discount rate of 20%, and the Deloitte Price Forecast 31 December 2015. The recoverable amount of the Copper Moki CGU is approximately $6.1 million (2014: $7.9 million) and the TWN Licences $7.1 (2014: $6.9 million).

The recoverable amount of PP&E is sensitive to the discount rate and forecast future commodity prices. If the discount rate applied to forecasted net cash flows increased by 5 percent, the Company would have recognized additional impairment of approximately $2.6 million ($1.0 million to Copper Moki and $1.6 million to TWN Licences).

(Expressed in Canadian Dollars)

A 5 percent reduction in forecast commodity prices would result in additional impairment of approximately $1.4 million ($0.4 million to Copper Moki and $1.0 million to TWN Licences).

Permit Expiry: the TWN Licences due to expire in June 2016 (Waihapa & Ngaere Licences) and July 2016 (Tariki Licence). The Company has made application for renewal of these Licences (filed with NZP&M in December 2015 for the Waihapa & Ngaere Licences and January 2016 for the Tariki Licence).

7. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand $	East Coast Basin, New Zealand $	Total $
Balance, 31 December 2013	**43,466,442**	**8,033,595**	**51,500,037**
Additions	366,055	637,352	1,003,407
Recoveries	(372,309)	-	(372,309)
Asset retirement obligation recognized	(42,299)	-	(42,299)
Impairment - Eltham	(37,116,249)	-	(37,116,249)
Impairment - Alton	(4,196,922)	-	(4,196,922)
Impairment - Manaia	(535,742)	-	(535,742)
Impairment - Wairoa	-	(4,693,027)	(4,693,027)
Impairment - Castlepoint	-	(4,102,245)	(4,102,245)
Foreign currency translation adjustment	2,110,476	638,438	2,748,914
Balance, 31 December 2014	**3,679,452**	**514,113**	**4,193,565**
Additions	55,159	1,932	57,091
Impairment - East Cape	-	(508,235)	(508,235)
Impairment - Alton	(3,683,647)	-	(3,683,647)
Impairment - Eltham	(13,405)	-	(13,405)
Foreign currency translation adjustment	(37,559)	(7,810)	(45,369)
Balance, 31 December 2015	**-**	**-**	**-**

The Company's oil and gas properties are located in New Zealand and its interests in these properties are maintained pursuant to the terms of exploration permits granted by the New Zealand government. The Company is satisfied that evidence supporting the current validity of these permits is adequate and acceptable by prevailing industry practices in respect to the current stage of exploration on these properties.

On 21 May 2015 the Company relinquished its interest in the East Cape Petroleum Exploration Permit (PEP 52976). The total cost of $508,235 capitalised as exploration and evaluation assets has been written off (2014: relinquished the Manaia, Wairoa and Castlepoint Permits and wrote off exploration expenditure previously capitalised).

At 31 December 2015, the Company assessed and concluded the carrying value of the Alton Exploration and Evaluation CGU exceeded its recoverable amount resulting in an impairment of $3.7 million (2014: $4.2 million).

(Expressed in Canadian Dollars)

8. LONG TERM ASSET RETIREMENT OBLIGATIONS

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim its wells in certain licences and permits, and restoration obligations associated with the land at the Waihapa Production Station together with the estimated timing of the costs to be paid in future periods. The total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is estimated at approximately $20.2 million.

The following table summarizes the Company's asset retirement obligations:

	$
Balance, 31 December 2013	**7,068,585**
Change in estimate	298,615
Accretion expense for the year	313,689
Foreign currency translation adjustment	240,812
Reclassified as current	(19,280)
Balance, 31 December 2014	**7,902,421**
Change in estimate	1,914,001
Accretion expense for the year	273,029
Foreign currency translation adjustment	531,000
Reclassified as non current	386,222
Balance, 31 December 2015	**11,006,673**

The following are the assumptions used to estimate the provision for asset retirement obligations:

	2015	**2014**
Total undiscounted value of payments	$20,230,760	$15,843,919
Discount rate	2.60% to 3.55%	3.56% to 3.67%
Expected life	1 to 23 years	1 to 25 years

9. WORKING CAPITAL FACILITY

On 24 September 2014, the Company entered into a working capital facility (the "Facility") with New Dawn Energy Ltd ("New Dawn") for up to NZ$5 million.

The total of the facility drawdown (NZ$638,457) was fully repaid in cash on 31 March 2015. All securities have been released and the Facility terminated.

10. SHARE CAPITAL

a) Details of issuances of common shares:

i) The Company has an unlimited number of common shares without par value authorized for issuance.

ii) On 15 December 2014, the Company completed a non-brokered private placement issuing 17,000,000 units at a price of $0.05, for gross proceeds of $850,000. Each unit consists of one common share and one common share purchase warrant (refer to Note 10(c)). Each whole warrant entitles the holder thereof to acquire one common share at a price of $0.07 per share extended until 15 December 2018 (see Note 10(c)). These securities were subject to a hold period that expired on April 16 2015.

iii) On 23 March 2015, the Company completed a non-brokered private placement issuing 44,250,000 common shares at a price of $0.04 per share, for gross proceeds of $1,770,000. The shares issued were subject to a four month and one day hold period that expired on 24 July 2015. Total costs in connection with the private placement were $32,206. Geoservices Limited ("Geoservices") subscribed for 29,000,000 shares under the private placement and, upon completion of the private placement, Geoservices owns or controls 46,000,000 common shares or approximately 19.82% of NZEC's total issued and outstanding common shares, and 17,000,000 common share purchase warrants. A resolution passed by vote of the disinterested shareholders of the Company granted approval at the

(Expressed in Canadian Dollars)

AGM on 16 June 2015, for Geoservices to become a new Control Person of the Company. The purchase of the securities by Geoservices was made for investment purposes. Subject to TSX-V rules, Geoservices may increase or decrease its investment in NZEC depending on market conditions or any other relevant factors.

b) Share purchase options

The Company has adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 31 December 2015. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

In November 2015 the Company granted 10,000,000 incentive stock options exercisable at $0.05 to a senior officer of the Company. The options have an expiry date of 30 June 2020 and will vest on 30 June 2018.

Details of the Company's share purchase option activity are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at 31 December 2013	8,874,700	1.30
Granted	4,158,000	0.45
Forfeited	(561,000)	0.45
Expired	(4,554,500)	0.67
Outstanding at 31 December 2014	7,917,200	0.54
Granted	10,000,000	0.05
Forfeited	(1,097,375)	0.45
Expired	(4,433,000)	0.61
Outstanding at 31 December 2015	**12,386,825**	**0.13**

The following table summarises information about share options outstanding and exercisable at 31 December 2015:

	Options Outstanding		Options Exercisable	
Range of exercise price	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
$0.01 to $0.99	12,386,825	4.16	1,971,825	2.58
	12,386,825	4.16	1,971,825	2.58

(Expressed in Canadian Dollars)

The following table summarises information about share options outstanding and exercisable at 31 December 2014:

	Options Outstanding		**Options Exercisable**	
Range of exercise price	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
$0.01 to $0.99	6,667,200	3.50	3,706,150	2.97
$1.00 to $1.49	1,250,000	1.59	1,250,000	1.59
	7,917,200	3.20	4,956,150	2.62

The total expense relating to share purchase options incurred for the year ended 31 December 2015 was ($7,513) (2014: $694,955).

The following are the weighted average assumptions employed to estimate the fair value of options granted using the Black-Scholes option pricing model:

	2015	**2014**
Risk-free interest rate	0.70%	1.55%
Expected volatility	69.37%	96.6%
Expected life	4.6 years	5 years
Expected dividend yield	Nil%	Nil%

Option pricing models require the input of subjective assumptions including the expected price volatility and expected option life. Management has calculated expected price volatility using historical share price data of the Company. Changes in these assumptions may have a significant impact on the fair value calculation.

c) Warrants

Warrants issued in unit issuance

On 28 October 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 subscription receipts at a price of $0.33 per subscription receipt. On 21 November 2013, following receipt from the British Columbia Securities Commission for the Company's short form prospectus, the subscription receipts converted into units consisting of one common share and one-half of one non-transferable share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Company at price of $0.45 with an expiry date of 28 October 2014. On 1 October 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from 28 October 2014 to 28 October 2015. On 21 October 2015 the Company received approval to extend the expiry date of these warrants to 21 October 2018. These warrants maintain an exercise price of $0.45 which entitles the holder to acquire one common share of the Company.

On 15 December 2014, the Company completed a non-brokered private placement, issuing 17,000,000 units at a price of $0.05. Each unit consists of one common share and one common share purchase warrant. These securities were subject to a hold period that expired on 16 April 2015. Each whole warrant entitled the holder thereof to acquire one common share at a price of $0.07 per share until 15 December 2015. On 21 October 2015 the Company received approval to extend the expiry date of these warrants to 15 December 2018.

As at 31 December 2015 all outstanding warrants are exercisable.

(Expressed in Canadian Dollars)

Details of the Company's warrant activity are as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding at 31 December 2013	24,452,178	0.45
Warrants issued from private placement	17,000,000	0.07
Outstanding at 31 December 2014 and 2015	**41,452,178**	**0.29**

The following are the weighted average assumptions employed to estimate the fair value of the warrants issued using the Black-Scholes warrant pricing model:

	2015	2014
Risk-free interest rate	N/A	1.02%
Expected volatility	N/A	44.21%
Expected life	N/A	1 year
Expected dividend yield	N/A	Nil%

11. REVENUES

	2015	2014
	$	$
Oil sales	2,714,584	7,911,569
Gas sales	327,159	564,369
Processing revenue (a)	2,054,883	1,543,241
Other revenue	40,883	321,097
Royalties	(199,991)	(697,792)
	4,937,518	9,642,484
Purchased oil sold (b)	-	3,001,248
Purchased condensate sold (b)	-	1,481,664
	4,937,518	14,125,396

a) As part of its operations of the TWN Assets, the Company provides services to third parties, including oil handling and pipeline throughput services, gas processing, as well as handling and disposal of produced water. The Company operates the nearby Ahuroa Gas Storage (AGS) Facility on behalf of Contact Energy Limited ("Contact"). Contact and the Company have agreed to amend aspects of the commercial relationship with Contact for the operation of the AGS Facility and in regard to the Waihapa Production Station ("WPS"). The amendments include (all figures are 100%; the Company has a 50% interest):

- escalation of the Base Fee for operation of the AGS Facility from NZ$201,000 per month to NZ$207,387 per month and the fixing of the Base Fee at this level for a 24 month period from 1 July, 2015 to 30 June 2017; and
- the grant to Contact of gas processing priority rights at the WPS for NZ$49,000 per month (for the period from 1 November 2014 until 30 June 2015); and NZ$75,000 per month (for the period from 1 July 2015 to 30 June 2017).

The figures for the year ended 31 December 2015 reflect that agreement. Full payment of the amended fees described above was received in October 2015.

b) In 2014 the Company purchased condensate and oil and on-sold both to another company. These agreements ended on 1 March 2014 (condensate) and 1 May 2014 (oil). The Company no longer assumes the risks and rewards of ownership of the condensate and oil, and therefore no longer records any revenue (or associated costs).

(Expressed in Canadian Dollars)

12. GENERAL AND ADMINISTRATIVE EXPENSES

	2015 $	2014 $
Professional fees	202,659	409,608
Management fees	-	1,145,300
Consulting fees	395,837	304,635
Travel and promotion	108,259	263,630
Administrative expenses	426,559	858,571
Rent	167,274	247,782
Filing and transfer agent fees	61,234	56,684
Insurance	384,359	422,492
Salary and wages	2,783,284	3,440,301
	4,529,465	**7,149,003**

13. INCOME TAXES

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the years ended 31 December 2015 and 2014 has been prepared as follows:

	2015 $	2014 $
Loss before income taxes	10,058,739	84,107,442
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(2,615,272)	(21,867,935)
Permanent difference - Stock-based compensation	(14,207)	58,572
Effect of tax rates in other jurisdictions	(193,076)	(1,638,774)
Effect of changes in foreign exchange rates	(274,871)	(461,308)
Adjustments to return	-	5,302
Change in unrecognized tax assets	3,096,225	23,895,262
Other	1,201	8,881
	-	-

(Expressed in Canadian Dollars)

The significant components of the Company's deferred income tax assets and liabilities are as follows:

	2015 $	2014 $
Deferred income tax assets		
Accounts payable	-	1,291,084
Employee benefits	99,723	91,945
Non-capital losses available for future periods	26,339,574	22,853,673
Environmental liabilities	3,081,868	2,309,620
Share issue costs	351,040	733,762
Resources property	4,099,780	4,950,738
	33,971,985	32,230,822
Unrecognized deferred tax assets	(32,768,913)	(30,958,094)
Deferred tax assets	1,203,072	1,272,728
Deferred income tax liability		
Accounts payable	-	-
Inventory	(107,225)	-
Property, plant and equipment	(1,098,874)	(848,073)
Net investment in subsidiaries	3,027	(424,655)
	(1,203,072)	(1,272,728)
Net deferred income tax asset	**-**	**-**

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2014: 26%) and a New Zealand tax rate of 28% (2014: 28%). These tax benefits have not been recognized in the consolidated financial statements as the benefits are unlikely to be realized.

The Company has operating losses available in Canada to reduce future taxable income of $18,753,497, which will expire between 2030 and 2035. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$86,275,948.

14. 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:

	2015 $	2014 $
Salary and management fees	1,479,543	2,112,274
Share-based compensation	(8,150)	302,928
	1,471,393	**2,415,202**

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 above amounts are:

- consulting fees of $168,477 (2014: $Nil) paid to Upstream Consulting Ltd, an entity associated with Mr James Willis;
- consulting fees of $15,633 (2014: $Nil) paid to Arenig Energy Ltd, an entity associated with Dr David Llewellyn;
- consulting fees of $225,709 (2014: $Nil) paid to Michael Adams Reservoir Engineering Limited, an entity associated with Mr Michael Adams;
- management fees of $Nil (2014: $1,201,095) paid to J. Proust and Associates Inc., an entity which had officers in common.

(Expressed in Canadian Dollars)

Greymouth Petroleum Limited

Greymouth Petroleum Ltd became a related party on 23 March 2015 with directors in common. Transactions and balances (revenue, and capital expenditure, to the Company in nature) since that date comprise:

	2015	2014
	$	$
Processing revenue	423,322	-
Oil & Gas properties expenditure	46,299	-
Accounts receivable	37,795	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

Tiger Drilling Limited

Tiger Drilling Ltd became a related party on 23 March 2015 with directors in common. Transactions and balances (capital expenditure to the Company in nature) since that date comprise:

	2015	2014
	$	$
Oil & Gas properties expenditure	6,445	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

15. SEGMENTED DISCLOSURES

The Company conducts its business as a single operating segment being the acquisition, exploration, development and production of conventional oil and natural gas resources in New Zealand. The Company's geographic area for all assets, liabilities and revenues is New Zealand.

16. COMMITMENTS

As at 31 December 2015, the Company had the following undiscounted contractual obligations:

	2016	2017 to 2018	2019 and onwards	Total
	$	$	$	$
Operating lease obligations [1]	164,146	76,629	-	240,775
Contract and purchase commitments	299,153	461,546	557,242	1,317,941
	463,299	**538,175**	**557,242**	**1,558,716**

Note 1. The Company has office leases in Wellington and New Plymouth.

(Expressed in Canadian Dollars)

17. PERMIT EXPENDITURE PLANS

The Company undertakes oil and gas production, development and exploration activities and has plans to complete certain exploration activities. Certain permits and licences held by the Company require various work obligations to be performed in order maintain the permits or licences in good standing. The Company and, where relevant, its co-venturers in a permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an interest in permits. The permit expenditure plans include those required 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 work program and is not based on a specific expenditure level. The anticipated cost of the works planned are set out below and relate to the following permits:

Permit	Type	2016	2017 to 2018	2019 and onwards	Total
		$	$	$	$
Taranaki Basin					
Eltham Permit	Exploration	-	4,274,000	-	4,274,000
Alton Permit [(1)]	Exploration	3,179,000	3,457,000	-	6,636,000
Total		**3,179,000**	**7,731,000**	**-**	**10,910,000**

Note1. Alton: 2016 - drill a well by 22 November, 2016; 2017: Advanced 2D/3D processing to evaluate sub-thrust targets; 2018 - drill a further exploration well. The work programme described assumes a Change of Condition application (lodged with the regulator to defer the drilling of the exploration well for 1 year to November 2016 and restructuring the timing of the subsequent work programme) is approved.

18. CAPITAL RISK MANAGEMENT

The Company's capital includes share capital, shares subscribed, contributed surplus and the cumulative deficit. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's short-term operating budgets and capital budgets are reviewed and updated annually and as necessary depending on various factors, including successful capital deployment. The Company may issue new shares, issue new debt or dispose of interests in assets in order to meet its financial obligations.

19. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to a variety of financial risks, including credit risk, liquidity risk, foreign exchange risk, interest rate risk, price risk and fair value risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Company. This note presents information about the Company's exposure to each of these risks, the Company's objectives and processes for measuring and managing risk, and the Company's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit Risk

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

Cash and cash equivalents consist of cash deposits that are primarily held with a registered New Zealand bank.

All of the Company's production is sold directly to a major oil company. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition. Trade receivables reported in the

Company's balance sheet are aged at or under 30 days and are exposed to the risk of provisional pricing adjustment due to near-term price movements of oil.

The carrying value of the Company's cash and cash equivalents, trade receivables and restricted cash represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at 31 December 2015.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its capital commitments, and other financial obligations as they are due. The Company's approach to managing liquidity is to ensure, to the extent possible, that it will have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking harm to the Company's reputation.

The Company's liquidity is dependent upon maintaining its current working capital balances, operating cash flows and ability to raise funds. To forecast and monitor liquidity the Company prepares operating and capital expenditure budgets which are monitored and updated as considered necessary.

At 31 December 2015, the Company had $431,976 in cash and cash equivalents (31 December 2014: $1,121,967) and $2,944,931 in working capital (31 December 2014: $2,822,098). As disclosed in Note 17, the Company has various ongoing permit expenditure plans which are associated with the Company's interest in its exploration and evaluation assets. To the extent that the Company elects not to carry out the permit expenditure plans pertaining to a specific permit, the Company stands to forfeit its interest in the relevant permit.

Management has estimated that the Company has sufficient working capital to meet short-term operating requirements. However, in light of the reliance on ongoing efforts to increase financial capacity and successful completion of development activities, there is significant doubt about the Company's ability to continue as a going concern. Refer Note 1, Going Concern.

The following are the expected maturities of financial liabilities and obligations at 31 December 2015:

	Less than 1 year	2 – 5 years	Thereafter	Total
	$			$
Accounts payable and accrued liabilities	1,126,358	-	-	1,126,358

Foreign Exchange Risk

The Company operates in New Zealand only. All of the Company's petroleum sales are denominated in United States dollars and operational and capital activities related to our properties are transacted primarily in New Zealand dollars and/or United States dollars with some costs also being incurred in Canadian dollars. Foreign exchange risk arises when the future commercial transactions, recognized assets and liabilities are denominated in a currency that is not the entity's functional currency.

The Company currently does not have significant exposure to other currencies and this is not expected to change in the foreseeable future as the work commitments in New Zealand are expected to be carried out in New Zealand and to a lesser extent, in United States dollars.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to interest rate fluctuations on its cash and cash equivalents that bear a variable rate of interest. The risk is not considered significant.

The Company did not have any interest rate swaps or financial contracts with variable interest rates in place during the period ended 31 December 2015 and any variations in interest rates would not have materially affected net income.

Price Risk

The Company is exposed to price movements as part of its operations in relation to the prices received for its oil production. Such prices may also affect the value of resources properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by numerous factors, including, but not limited to, industrial and retail demand, levels of worldwide production, short-term changes in supply and demand related to speculative activities, forward sales by producers and speculators, and other factors. The Company's oil production is priced based on an agreed contract price marker based on spot prices, exposing the Company to the risk of price movements. The Company has not entered into any hedge instruments and because oil sales are derived from spot prices, the impact of price risk on the Company's financial instruments is minimal.

Fair Value

Financial instruments recognized at fair value on the consolidated balance sheets must be classified into one of the three following fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the assets or liability.

Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the assets of liability.

20. SUBSEQUENT EVENTS

There are no Subsequent Events to report.

NEW ZEALAND ENERGY CORP.

Management's Discussion and Analysis

Year Ended 31 December 2015

(Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") is dated 26 April 2016, for the year ended 31 December 2015. It should be read in conjunction with the audited consolidated financial statements of New Zealand Energy Corp. ("NZEC" or the "Company") for the year ended 31 December 2015 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 includes certain statements that may be deemed "forward-looking statements" (see *Forward-looking Information*). All amounts are in Canadian dollars unless otherwise stated.

NZEC's shares are listed on the TSX Venture Exchange under the symbol "NZ". Additional information is available on SEDAR and on the Company's website at www.newzealandenergy.com.

NZEC's BUSINESS

NZEC, through its subsidiaries (collectively "NZEC" or "the Company") is engaged in the production of and exploration for oil and natural gas in New Zealand, as well as the operation of midstream assets. The Company's assets are located on New Zealand's North Island in the Taranaki Basin (comprising 395 square kilometres) which is New Zealand's only commercial oil and gas producing area.

Background

NZEC is the Operator of three Petroleum Mining Licences ("PMLs"), one Petroleum Mining Permit ("PMP") and two Petroleum Exploration Permits ("PEPs") in which it has an interest. It holds a 50% interest, with L&M Energy Limited ("L&M"), in the PML 38138 ("Tariki Licence"), PML 38140 ("Waihapa Licence") and PML 38141 ("Ngaere Licence") (collectively the "TWN Licences").

NZEC has a 100% interest in PMP 55491 ("Copper Moki PMP"), a 100% interest in PEP 51150 (the "Eltham Permit") and a 65% interest in PEP 51151 (the "Alton Permit") with L&M.

NZEC holds a 50% working interest (with New Dawn Energy Limited) in, and is operator of, the Waihapa Production Station and associated gathering and sales infrastructure (collectively the "TWN Assets"), providing a range of services to third parties including operation of the Ahuroa gas storage facility, oil handling and pipeline throughput, gas processing and transport, and produced water handling and disposal.

ANNUAL AND QUARTERLY OPERATING & FINANCIAL HIGHLIGHTS

The following are the annual and quarterly operating and financial highlights:

1. **Safety** - 284 days harm free in 2015, since the last incident on 22 March 2015;
2. **Copper Moki -** in November a water flood project started in the Copper Moki-1 pool, with the conversion of the Waitapu–2 well from a shut-in oil producer to a water injection well. In mid-December the downhole pump in the Copper Moki 2 well was replaced. These initiatives saw production from Copper Moki increase from 48 boe per day (60% oil) in October/November to 163 boe per day (74% oil) for the last 10 days of December (see "*Property Review & Outlook"* and *Recent Developments*");
3. **Exit rate –** the Company's oil production exit rate for the last 10 days of December averaged 248 boe per day (83% oil);
4. **Production -** for the fourth quarter was 10,787 boe (80% oil) (with an average 116 boe per day); and 52,141 boe (80% oil) (with an average 143 boe per day) for the full year;
5. **Sales (oil) –** for the fourth quarter of 12,246 bbl realised $630,339 (with an average oil sale price of $51.47 per bbl); and for the full year 44,856 bbl realised $2,714,584 (with an average oil sale price of $60.52 per bbl);
6. **Processing revenue -** from the TWN Assets was $539,475 for the fourth quarter and $2,054,883 for the full year, with a number of third party customers accessing a range of services including oil handling and pipeline throughput services, gas processing, and handling and disposal of produced water.
7. **OTCQX –** on 31 December 2015 the Company delisted from its secondary listing on the OTCQX;
8. **Options** - on 25 November 2015 the Directors resolved to grant 10,000,000 options to a senior officer of the Company. These options have a vesting date of 30 June 2018, an expiry date of 30 June 2020, are exercisable at $0.05 per share and are otherwise granted in accordance with the terms and conditions of the Company's approved stock option plan;

9. **Warrants** – on 21 October 2015 the Company received approval from the TSX-V to extend the expiry date of the following private placement warrants:

   - 24,452,178 warrants extended from 28 October 2015 to 28 October 2018. Each warrant has an exercise price of $0.45 entitling the holder to acquire one common share of the Company; and

   - 17,000,000 warrants extended from 15 December 2015 to 15 December 2018. Each warrant has an exercise price of $0.07 entitling the holder to acquire one common share of the Company.

10. **Operations & Commercial –** Contact Energy Limited ("Contact") and the Company agreed to amend aspects of the commercial relationship with Contact for the operation of the Ahuroa Gas Storage Facility ("AGS Facility") and in regard to the Waihapa Production Station ("WPS"). The amendments include:

    - escalation of the Base Fee for operation of the AGS Facility from NZ$201,000 per month to NZ$207,387 per month and the fixing of the Base Fee at this level for a 24 month period from 1 July 2015 to 30 June 2017[1]; and
    - the grant to Contact of gas processing priority rights at the WPS for NZ$49,000 per month (for the period from 1 November 2014 until 30 June 2015); and NZ$75,000 per month (for the period from 1 July 2015 to 30 June 2017[1]).

11. **2015 Annual General Meeting (AGM) –** the Company held its AGM on 16 June, 2015. Included in the resolutions passed by the Company shareholders at the meeting, were resolutions to (re)appoint James Willis, Mark Dunphy and Dr. David Llewellyn as directors and to approve Geoservices Limited becoming a new control person of the Company.

12. **East Cape relinquishment** - On 21 May 2015 the Company relinquished the East Cape permit, (PEP52976). The total cost of $508,235 capitalised as exploration and evaluation assets with respect to the East Cape permit was written off.

13. **Private placement** – On 23 March 2015 the Company raised $1,770,000 by private placement. Key components of the private placement being the issue of 44,250,000 common shares at a price of $0.04 per share to new and existing investors;

14. **New Dawn working capital facility –** NZEC repaid the facility, in cash, on 31 March 2015 with consequent release of the security.

2016 OUTLOOK

The Company anticipates it will continue to be affected by lower commodity prices for oil in 2016.

Key objectives for the year include:

1. maintaining a goal of zero harm to people and the environment in partnership with the local community in respect of the Company assets;

2. Obtaining renewal of the TWN Licences in 2016 (the Company made applications for renewal to the regulator, New Zealand Petroleum & Minerals ("NZP&M"), in December 2015 and January 2016) see *Recent Developments*; and

3. identifying opportunities within the Company assets for low cost developments. Given the current low oil price environment, the Company does not intend to undertake capital intensive developments at this stage but noting this may change with moves in the oil price.

RECENT DEVELOPMENTS

Copper Moki. Following the start of the water flood project (Copper Moki-1) and replacement of the downhole pump (Copper Moki-2) production from the Copper Moki wells has exceeded expectations. Production has increased, averaging 280 boe per day (71% oil) over the 3-month period from 1 January to 31 March 2016 (see "*Property Review & Outlook*");

TWN Licences: The Waihapa and Ngaere Licences are due to expire in June 2016 and the Tariki Licence in July 2016. Accordingly, the Company filed applications with NZP&M for their renewal. NZP&M is currently assessing these applications (see "*Property Review & Outlook*").

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[1] All figures 100%. The Company has a 50% interest.

FINANCIAL SNAPSHOT

	Three months ended, 31 December, 2015		Year ended 31 December, 2015	Year ended 31 December, 2014	Year ended 31 December, 2013
Production	8,683 bbl		42,012 bbl	72,938 bbl	77,484 bbl
Sales	12,246 bbl		44,856 bbl	75,788 bbl	77,820 bbl
Price	51.47 $/bbl		60.52 $/bbl	104.39 $/bbl	109.09 $/bbl
Production costs	37.94 $/bbl		28.11 $/bbl	27.30 $/bbl	58.73 $/bbl
Royalties	4.07 $/bbl		4.46 $/bbl	9.21 $/bbl	5.98 $/bbl
Field netback	9.46 $/bbl		27.95 $/bbl	67.88 $/bbl	44.38 $/bbl
Revenue	1,218,832		4,937,518	14,125,396	10,662,879
Total comprehensive loss	(4,936,206)		(9,434,419)	(79,218,327)	(9,303,312)
Finance expense	(75,850)		(268,936)	(283,541)	(97,598)
Loss per share - basic and diluted	(0.03)		(0.05)	(0.49)	(0.12)
Current assets	4,071,289		4,071,289	5,510,069	15,147,197
Total assets	28,200,578		28,200,578	34,362,077	116,782,687
Total long-term liabilities	11,006,673		11,006,673	7,902,421	7,068,585
Total liabilities	12,133,031		12,133,031	10,590,392	15,337,630
Shareholders' equity	16,067,547		16,067,547	23,771,685	101,445,057

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

RESERVES UPDATE

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 31 December 2015.

NZEC's Proved + Probable ("2P") reserves, reflecting the Company's 100% interest in the Copper Moki Permit and its 50% interest in the Waihapa, Tariki and Ngaere PMLs, are estimated at 923,000 barrels of oil (1,149,000 barrels of oil equivalent, including associated gas[2]) with an after tax net present value discounted at 10% (at 31 December 2015) of $20.2 million.

Overall, oil reserves reduced by 56,000 bbl, including production of 42,000 bbl. In regard to the particular variances, the Company notes that, after production:

1. **Copper Moki** - showed a decrease in reserves reflecting Copper Moki-3 being shut-in and Waitapu-2 converted to a water injector well (for the waterflood project); offset by incremental reserves attributed to the anticipated waterflood response and improvement in Copper Moki-2 production following the pump replacement;

2. **Waihapa/Ngaere** - showed a small increase in oil reserves, reflecting a more consistent well performance especially in those wells on continuous gas lift.

See the Company's *Form 51-101F1 Statement of Reserves Data* dated 26 April 2016 which is filed on SEDAR for full information on the Company reserves and in particular, *Part 4 Reconciliation of Changes In Reserves*.

[2] 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.

OIL AND GAS RESERVES SUMMARY Forecast Pricing and Costs As at 31 December 2015						
	Light & Medium Oil		Natural Gas		Barrels Oil Equivalent	
Reserves Category	Gross Mstb	Net Mstb	Gross MMcf	Net MMcf	Gross Mboe	Net Mboe
Proved						
Developed Producing	397.2	352.2	539.2	494.2	487.0	434.6
Developed Non-Producing	110.9	94.9	189.1	170.8	142.4	123.3
Undeveloped	128.3	113.4	89.8	80.8	143.3	126.9
Total Proved	**636.3**	**560.6**	**818.2**	**745.9**	**772.7**	**684.9**
Probable	406.6	362.9	652.5	606.2	515.3	463.9
Total Proved and Probable	**1,042.9**	**923.4**	**1,470.6**	**1,352.1**	**1,288.0**	**1,148.8**

Notes:
(1) Net reserves to NZEC after deduction of royalty obligations payable to the New Zealand government and Origin Energy Resources NZ (TAWN) Limited. Numbers may not sum due to rounding. See Cautionary Note Regarding Reserve Estimates.
(2) Mstb – thousand barrels.
(3) MMcf – million cubic feet of natural gas.
(4) Mboe – thousand barrels of oil equivalent using a conversion ratio of 6 Mcf:1 bbl. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. The boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE Before & After Tax Forecast Pricing and Costs As at 31 December 2015						
	Net Present value of Future Net Revenues[1] Before and After Tax Discounted at %/year					
Reserves Category	0% $000	5% $000	10% $000	15% $000	20% $000	Unit Value 10% ($/BOE)
Proved						
Developed Producing	11,882.3	7,373.2	5,227.8	4,035.3	3,293.5	12.02
Developed Non-Producing	4,052.6	4,114.1	3,532.0	2,937.2	2,438.4	28.65
Undeveloped	2,237.0	950.5	209.8	-215.2	-459.1	1.65
Total Proved	**18,171.9**	**12,437.8**	**8,969.5**	**6,757.3**	**5,272.7**	**13.10**
Probable	29,303.0	17,238.0	11,232.7	7,917.1	5,913.5	24.21
Total Proved Plus Probable	**47,474.9**	**29,675.9**	**20,202.3**	**14,674.4**	**11,186.2**	**17.59**

Notes:
(1) Net present value of future net revenue to NZEC after deduction of royalty obligations payable to the New Zealand Government and Origin Energy Resources NZ (TAWN) Limited. Numbers may not sum due to rounding.

PROPERTY REVIEW & OUTLOOK

This section reviews activities and developments during the reporting period in respect of the Company's assets.

TWN Petroleum Mining Licences and Copper Moki Petroleum Mining Permit

The Company produces from Waihapa and Ngaere production wells in the TWN Permit Mining Licences and from the Copper Moki wells in the Copper Moki Mining Permit.

During 2015 the focus was to right-size the business (see the "Results of Operations") and to carry out production optimisation activities. For example, in Waihapa-Ngaere a change from periodic production to continuous gas-lifting of the Waihapa-6A and Ngaere-1 wells has resulted in higher oil rates from Waihapa-Ngaere through the second six months than in the first six months.

With the TWN Licences due to expire in June 2016 (Waihapa & Ngaere Licences) and July 2016 (Tariki Licence) the Company has made application for renewal of these Licences (filed with NZP&M in December 2015 for the Waihapa & Ngaere Licences and January 2016 for the Tariki Licence). Further substantial work on these licences is on hold pending approval of Licence term extensions from NZP&M.

In the last quarter of 2015 the Company proceeded with development activities on existing wells in both the TWN and Copper Moki concessions (including opportunities for development of gas resources within the concessions). These included:

- <u>Copper Moki-2</u>: Replacement of the downhole pump was planned after pump performance declined in Q2 2015. The old pump was retrieved in October and a new sand resistant pump was run in December, with production online from 21 December. Oil production has exceeded expectations and the well is producing sufficient gas to meet all WPS fuel gas needs, removing the need to purchase fuel gas from third parties for WPS operations;

- <u>Copper Moki Water Flood</u>: With field pressure declining over the previous 24 months and a consequent fall off in oil production from Copper Moki-1, the Company initiated a water flood project involving the conversion of the Waitapu-2 well (previously shut-in) from an oil producer to a water injector. Water is supplied from the nearby Waihapa production station, where surplus formation water is transferred by truck to Waitapu and from November 2015 has been injected into the reservoir. The production decline from the Copper Moki-1 has subsequently been arrested and the oil rate is increasing (Note: the Company also sought and received approval from NZP&M to remove a work commitment to build a gas pipeline from Waitapu-2, given the changed role of the Waitapu-2 well from a production well to a water injection well).

  These initiatives have resulted in increased oil production, which has exceeded expectations – in October/November oil production from Copper Moki averaged 48 boe per day (60% oil)which had increased to an average of 280 boe per day (71% oil) over the 3-month period from 1 January to 31 March.

- <u>Waihapa-1B</u>: The well has been restored to production in March 2016 and is currently being tested;

- <u>Tariki Area</u>: There are a range of development and appraisal activities being evaluated for the Tariki permit. Some are contingent on the results of the further gas flow tests on Tariki-4A. The depleted gas field may be assessed for use as gas storage, and/or a short-radius side-track up-dip in the Tariki-4A fault block. Elsewhere in the permit there are Tikorangi oil and Tariki sand gas prospects.

Eltham Petroleum Exploration Permit

The Eltham Permit comprises 188 square kilometres. The Company is assessing exploration opportunities in the Eltham PEP. In 2016, the seismic overlap arising from the adjacent Kapuni licence acquisition (by the Kapuni JV) will be integrated with NZEC's existing database. A well decision is due by year end.

Alton Petroleum Exploration Permit

The work program for the Alton Permit involves the drilling of an exploration well by 22 November, 2015. In August, NZEC (as Operator on behalf of the joint venture) lodged a change of conditions application with the regulator (New Zealand Petroleum & Minerals) to defer the drilling of this exploration well by 1 year (to 22 November, 2016) and restructure the timing of the subsequent permit works. A response from NZP&M is awaited on this application.

At 31 December the Company assessed and concluded the carrying value of Alton should be fully impaired.

TWN Midstream Assets

Services are provided to Contact Energy in relation to operation of the Ahuroa gas storage facility (see #9 "*Annual and Quarterly Operating & Financial Highlights"* amended commercial arrangements*)*. In addition, other parties are accessing services for oil handling and pipeline throughput, gas processing and transport, and handling and disposal of produced water.

SUMMARY OF QUARTERLY RESULTS

	2015-Q4 $	2015-Q3 $	2015-Q2 $	2015-Q1 $
Total assets	28,200,578	30,288,051	29,720,826	35,749,089
Exploration and evaluation assets	-	3,520,385	3,462,767	4,329,353
Property, plant and equipment	23,583,681	21,737,911	21,118,438	24,900,538
Working capital	2,944,931	3,363,895	3,279,079	4,018,474
Revenues	1,218,832	1,296,485	1,225,724	1,196,477
Accumulated deficit	(129,266,015)	(122,416,825)	(121,610,062)	(120,387,206)
Total comprehensive income (loss)	(4,936,206)	(541,415)	(3,975,257)	18,459
Basic (loss) earnings per share	(0.03)	(0.00)	(0.01)	(0.01)
Diluted (loss) earnings per share	(0.03)	(0.00)	(0.01)	(0.01)

	2014-Q4 $	2014-Q3 $	2014-Q2 $	2014-Q1 $
Total assets	34,362,077	98,459,282	107,513,101	124,788,600
Exploration and evaluation assets	4,193,565	43,072,192	46,476,829	56,876,779
Property, plant and equipment	23,887,382	48,815,452	53,409,032	54,786,347
Working capital	2,822,098	3,366,017	3,652,514	5,299,434
Revenues	2,608,747	2,104,561	3,091,139	6,320,949
Accumulated deficit	(119,207,276)	(48,965,855)	(47,287,210)	(37,122,556)
Total comprehensive income (loss)	(65,513,965)	(8,540,759)	(13,616,047)	8,452,444
Basic (loss) earnings per share	(0.41)	(0.01)	(0.06)	(0.01)
Diluted (loss) earnings per share	(0.41)	(0.01)	(0.06)	(0.01)

See NZEC's *Business,* and *Property Review & Outlook* for the activities to which this summary of quarterly results relates.

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD AND YEAR ENDED 31 DECEMBER 2015

This section of the MD&A provides analysis of the Company's operations in respect of the fourth quarter of 2015 ("Three Month Period") and the year ended ("Year Ended") compared to results achieved for the same periods in 2014. See *Quarter Operating & Financial Highlights* for a summary of the fourth quarter and full year 2015 operational events and activities.

Production and sales

	Three Month Period ended		Year ended	
Barrels	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Production – Oil	8,683	15,502	42,012	72,938
Sales – Oil	12,246	21,271	44,856	75,788

During both the *Three Month Period* and *Year Ended* the production decrease results principally from natural declines in production from the wells following flush production in 2014.

Revenues

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Oil Sales	630,339	1,613,224	2,714,584	7,911,569
Processing Revenue	539,475	259,814	2,054,883	1,543,241
Royalty*	(49,822)	(125,481)	(199,991)	(697,792)

Note. In respect to Oil Sales, revenue is derived from oil sales volume, oil price and exchange rate. The realised per barrel price is based on the Brent crude oil price.

Three Month Period: Total oil sales realised $51.47 per bbl (2014: $75.84). Processing revenues, from Waihapa Production Station, have increased, principally due to the gas priority processing agreement reached with Contact during the year (See "*Annual and Quarterly Operating & Financial Highlights").*

Year Ended: Total oil sales realised $60.52 per bbl (2014: $104.39). Processing revenues, from Waihapa Production Station, have increased, principally due to the gas priority processing agreement reached with Contact during the quarter (See "*Annual and Quarterly Operating & Financial Highlights")*.

**Royalty*: Royalties paid are based on an ad valorem Crown royalty of 5% at Copper Moki and 10% (less allowable costs) for the TWN Licences. In addition, for the TWN Licences, there is a 9% overriding royalty payable to Origin Energy with a calculation based on the Crown royalty calculation. Total costs are related to the mix and source of production.

Production Costs

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Production Costs	464,670	(54,548)	1,260,936	2,069,256

Three Month Period: Production costs in 2015 were higher following a reclassification of costs between Production Costs, General and Administrative Expenses and purchased oil in 2014. On a consistent basis the Three Month Period costs for 2014 were $730,481. The production cost per barrel is $37.94 (2014: $34.34 on a consistent basis).

Year Ended: Production costs decreased by $808,320 reflecting the lower volume of oil sold and also, in part, due to a focus on costs. The production cost per barrel is $28.11 (2014: $27.30).

Processing Costs

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Processing Costs	253,976	1,008,265	938,265	1,699,489

Three Month Period: These costs represent direct costs associated with operation of the TWN Assets. The 2014 figure is higher due to a reclassification of intra-group gas sales between Processing Costs and Gas sales and the drop in oil price which has impacted the value of the "oil inventory in the pipeline".

Year Ended: The 2015 costs are lower reflecting a focus on cost reductions and smaller drop in oil price during the year impacting the value of "oil inventory in the pipeline".

Depreciation

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Depreciation	393,254	953,121	1,630,961	3,738,132

Depreciation is calculated using the unit-of-production method by reference to the ratio of production during the Three Month Period as compared 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.

Three Month Period and Year Ended: The decrease in 2015 reflects the lower asset base due to the impairment made at year end 2014 and lower production.

Impairment

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Impairment PPE	1,674,100	26,434,146	1,674,100	26,434,146
Impairment E&E	3,697,052	41,313,171	4,205,287	50,644,185

Impairment – PP&E: The impairment in 2015 reflects the write-down of the Copper Moki permit $1,674,100 (2014: $16,349,423) and the TWN Licences $Nil (2014: $10,084,723). Both 2015 and 2014 impairments were the result of the reduction in commodity prices, and the reduction in remaining reserve estimates.

Impairment – E&E: The 2015 impairment principally reflects the assessment that the carrying value of the Alton Exploration and Evaluation CGU exceeds its recoverable amount ($3,697,052). The balance reflects the relinquishment of the East Cape Permit in May 2015 ($508,235). In 2014 the Three Month Period impairment reflects an assessment undertaken after subdivision of the Eltham PEP from the Copper Moki PMP ($37,116,249). The exploration wells were unlikely to access proved and probable reserves in the near term (in part due to the economics arising from the deterioration of commodity prices). Alton was also partially impaired ($4,196,922) during that quarter. In addition, the Wairoa ($4,693,027), Castlepoint ($4,102,245) and Manaia ($535,742) PEPs were relinquished in the second quarter of 2014.

Stock Based Compensation

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Stock Based Compensation	11,413	40,617	(7,513)	544,843

The credit in 2015 arises from the 1,097,375 of options forfeited (and the $54,641 fair value attributed to those options) in the Three Month period to end September. In November 2015 10,000,000 new stock options were issued with the fair value of $8,106 recognised in the Three Month period to end December 2015.

General and Administrative Expenses

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
General & Administrative	1,086,619	2,126,702	4,529,465	7,149,003

The reduced costs recorded for the Three and Twelve Month Period compared to 2014 reflect the steps taken to 'right size' the Company and the ongoing focus on costs. Of note are the reductions in Management Fees, Travel, Administrative expenses and Salaries and Wages. See further breakdown in *Consolidated Financial Statements - Note 12, General and Administrative Expenses*.

Finance Expense

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Finance Expense	75,850	59,266	268,936	283,541

Finance expense during the Three Month Period and Year Ended reflects the accretion expense associated with asset retirement obligations. The Year Ended also includes interest costs arising from the New Dawn Working Capital Facility.

Exchange Difference on Translation of Foreign Currency

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Exchange Difference – gain (loss)	1,912,983	4,727,456	624,320	4,889,115

Exchange differences arises from the translation of foreign operations and monetary items (largely based in NZD) that form part of NZEC's net investment in foreign operations.

Three Month Period: The NZD strengthened against the CAD over the Three Month Period moving from 0.8560 at 30 September, 2015 to 0.9498 at 31 December, 2015. In the comparative period in 2014 the NZD strengthened from 0.8668 to 0.9043 against a higher asset base (pre-impairment prior to 31 December 2014).

Year Ended: The NZD strengthened against the CAD over the Twelve Month Period moving from 0.9043 at 31 December, 2014 to 0.9498 at 31 December, 2015. In the comparative period in 2014 the NZD strengthened from 0.8734 to 0.9043 against a higher asset base (pre-impairment prior to 31 December 2014).

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES

Exploration & Evaluation Expenditure

The Company recognised the following additions in exploration and evaluation ("E&E") assets during the Three Month Period and Year Ended:

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Taranaki Basin	15,576	252,639	55,159	366,055
East Coast Basin	-	185,822	1,932	637,352
Total	**15,576**	**438,461**	**57,091**	**1,003,407**

Three Month Period: 2014 expenditure relates to geological and geophysical ("G&G") and overhead spend in the Eltham and East Cape Permits.

Year Ended: During 2015 exploration and evaluation expenditure was of a geological and geophysical ("G&G") nature. In 2014, expenditure was primarily in the Manaia PEP (seismic) and "G&G" in Eltham and East Coast permits.

Capital Expenditure

The Company recognised the following additions in Property, Plant and Equipment ("PP&E") assets during the Three Month Period and Year Ended:

	Three Month Period ended		Year ended	
$	31 December 2015	31 December 2014	31 December 2015	31 December 2014
TWN Assets	22,365	580,954	147,873	2,989,436
Copper Moki	142,813	(277,621)	202,600	267,408
Other	-	(31,251)	(22,066)	105,237
Total	**165,178**	**272,082**	**328,407**	**3,362,081**

Three Month Period: In Copper Moki, 2015 expenditure relates to Copper Moki-2 workover and water flood. The 2014 reduction in Copper Moki relates to a reclassification to inventory. In the TWN Assets, 2015 spend relates to motor vehicle purchases, while in 2014 spend relates to Waihapa-2 jet pump recompletion and surface facilities.

Year Ended: 2015 expenditure in the TWN Assets was related to activities with producing wells and the capitalisation of a new air compressor at the production station. In 2014 expenditure was mainly for the Toko-B well ESP installation and Waihapa-2 recompletion. In Copper Moki, 2015 spending mainly relates to Copper Moki-2 workover and water flood, while in 2014 spending mostly relates to Waitapu-2 bottom hole pump change.

USE OF PROCEEDS

Gross (and net) proceeds from the private placement, completed on 23 March 2015 amounted to $1,770,000 ($1,737,794). The anticipated and actual use of the net proceeds was for general working capital.

COMMITMENTS

As at 31 December 2015 the Company had the following undiscounted contractual obligations:

	2016 $	**2017-2018 $**	**2019 and onwards $**	**Total $**
Operating lease obligations (1)	164,146	76,629	-	240,775
Contract and purchase commitments	299,153	461,546	557,242	1,317,941
Total	**463,299**	**538,175**	**557,242**	**1,558,716**

(1) The Company has office leases for its offices in Wellington and New Plymouth.

PERMIT EXPENDITURE PLANS

The Company undertakes oil and gas production, development and exploration activities and has plans to complete certain exploration activities. Certain of the permits and licences held by the Company require various work obligations to be performed in order maintain the permits or licences in good standing. The Company and, where relevant, its co-venturers in a permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an interest in permits. The permit expenditure plans include those required 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 work program and is not based on a specific expenditure level.

The table below reflects management's estimates of future expenditures required to complete the work programs as at the date of this MD&A.

Properties	**Type**	**2016 $**	**2017-2018 $**	**2019 and onwards $**	**Total $**
Taranaki Basin					
Eltham Permit (1)	Exploration	-	4,274,000	-	4,274,000
Alton Permit (2)	Exploration	3,179,000	3,457,000	-	6,636,000
Total		**3,179,000**	**7,731,000**	**-**	**10,910,000**

Notes:

(1) Eltham: 2017 - drill an exploration well.
(2) Alton: 2016 - drill a well by 22 November, 2016; 2017: Advanced 2D/3D processing to evaluate sub-thrust targets; 2018 - drill a further exploration well. The work programme describes assumes a Change of Condition application (lodged with the regulator to defer the drilling of the exploration well for 1 year to November 2016 and restructuring the timing of the subsequent work programme) is approved. A further response from NZP&M is awaited on this application.

The amounts above represent estimated expenditures (should the operations proceed).

LIQUIDITY AND CAPITAL RESOURCES

As at 31 December 2015, the Company had $431,976 in cash and cash equivalents (31 December 2014: $1,121,967) and $2,944,931 in working capital (31 December, 2014: $2,822,098).

The Company continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production (production has increased to >200b/d since January 2016), credit facilities, commercial arrangements or other financing alternatives to enable it to undertake operations required to further exploit the permits and licences it holds, with the objective of increasing petroleum production.

The Company's ability to improve its financial capacity and the relative success, and cash flow generated from, intended operations cannot be assured. See the *Consolidated Financial Statements - Note 1, Going Concern*.

The Company's objectives for 2016 are outlined in earlier in the MD&A "2016 OUTLOOK" (p3).

CASH FLOW

Operating Activities

In the year ended 31 December 2015, the Company used cash of $1,602,145 (2014: $1,996,722) in operating activities after generating a net loss of $10,058,739 (2014: $84,107,442). The more significant non-cash items contributing to the net loss during the year ended 31 December 2015 included $5,879,387 in impairment (2014: $77,078,331) and $1,903,990 in depreciation and accretion (2014: $4,053,568).

Investing Activities

During the year ended 31 December 2015, the Company used cash of $488,733 (2014: $2,979,593) in investing activities mostly for the purchase of property plant and equipment.

Financing Activities

During the year ended 31 December 2015, cash provided through financing activities was $1,339,221 (2014: $1,177,065) being the private placement proceeds of $1,737,794 (net of placement costs $32,206) less the repayment of the New Dawn working capital facility $398,573. See *Liquidity and Capital Resources*.

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:

	Year ended	
$	31 December 2015	31 December 2014
Salary and other fees	1,479,543	2,112,274
Share-based compensation	(8,150)	302,928
Total	**1,471,393**	**2,415,202**

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 above amounts are:

- consulting fees of $168,477 (2014: $Nil) paid to Upstream Consulting Ltd, an entity associated with Mr James Willis;
- consulting fees of $15,633 (2014: $Nil) paid to Arenig Energy Ltd, an entity associated with Mr David Llewellyn;

- consulting fees of $225,709 (2014: $Nil) paid to Michael Adams Reservoir Engineering Limited, an entity associated with Michael Adams;
- management fees of $Nil (2014: $1,201,095) paid to J. Proust and Associates Inc., an entity which had officers in common.

Greymouth Petroleum Limited

Greymouth Petroleum Ltd became a related party on 23 March, 2015 with directors in common. Transactions and balances (revenue to the Company in nature) since that date comprise:

	Year ended	
$	31 December 2015	31 December 2014
Processing revenue	423,322	-
Oil & Gas properties expenditure	46,299	-
Accounts Receivable	37,795	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

Tiger Drilling Limited

Tiger Drilling Ltd became a related party on 23 March, 2015 with directors in common. Transactions and balances (capital expenditure to the Company in nature) since that date comprise:

	Year ended	
$	31 December 2015	31 December 2014
Oil & Gas properties expenditure	6,445	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

OFF-BALANCE SHEET ARRANGEMENTS

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

ADOPTION OF NEW OR REVISED IFRSs

There has been no change in the accounting policies and methods of computation used by the Company in the annual consolidated financial statements for the year ended 31 December 2015.

Future IFRS Not Yet Effective

a) IFRS 9 – Financial Instruments

IFRS 9 *Financial Instruments* ("IFRS 9") is effective for annual reporting periods beginning on or after 1 January 2018. The standard comprises three phases: phase one, Classification and Measurement; phase two, Impairment; and phase three, Hedge Accounting. The impact of these phases has yet to be assessed.

b) **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") is effective for annual reporting periods beginning on or after 1 January 2018. The Group has yet to determine the impact this standard will have on the financial statements.

c) **IFRS 16 Leases**

IFRS 16 *Leases* ("IFRS 16") is effective for annual reporting periods beginning on or after 1 January 2019. The Group has yet to determine the impact this standard will have on the financial statements

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the Company or are not expected to have a material impact on the Group's financial statements and therefore have not been discussed

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 consolidated financial statements for the years ended 31 December 2015 and 2014:

	Year ended	
$	31 December 2015	31 December 2014
Revenue		
Oil sales	2,714,584	7,911,569
Royalties	(199,991)	(697,792)
	2,514,593	7,213,777
Production Costs	(1,260,936)	(2,069,256)
Sub-total (a)	1,253,657	**5,144,521**
Barrels of Oil sold (b)	44,856	75,788
Field Netback [(a)/(b)] $/bbl	**27.95**	**67.88**

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at 31 December 2015, the Company had 232,123,459 common shares outstanding.

As of the date of this MD&A, the Company's share capitalization included 232,123,459 common shares, 41,452,178 warrants[3] and 12,354,200 stock options, of which 2,257,450 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 development and exploration 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. The Company works to mitigate these risks through such mechanisms as its project and opportunity evaluation processes, engagement with joint venturers and employing appropriately skilled staff. In addition insurance policies, consistent with industry practice, are maintained to protect against loss of assets, well blowouts and third party liability. The Company is committed to operating in accordance with all applicable the laws and regulations, safely and with due regard to the environment.

[3] The Company has extended the expiry date of all warrants. See *Annual and Quarterly Operating & Financial Highlights (note 9)*

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.