Management's Discussion and Analysis

Year Ended December 31, 2014

(Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") is dated April 29, 2015, for the year ended December 31, 2014. 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 December 31, 2014, as publicly filed on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at www.sedar.com.

NZEC reports in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the following disclosure, and associated consolidated financial statements, are presented in accordance with IFRS.

This MD&A 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" and on the OTCQX International Exchange under the symbol "NZERF". Additional information is available on SEDAR and on the Company's website at www.newzealandenergy.com.

NZEC's BUSINESS

NZEC, through its subsidiaries (collectively "NZEC" or "the Company") is engaged in the exploration and development of, and production from oil and natural gas resources in New Zealand, as well as the operation of midstream assets. The Company's assets are located on New Zealand's North Island, and more specifically - in the Taranaki Basin (97,726 net acres) which is New Zealand's only commercial oil and gas producing area; and the East Coast Basin (1,048,406 acres) of New Zealand's North Island.

Background

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

During 2013, the Company drilled 2 further wells, completed acquisition of the TWN Licenses and TWN Assets (as defined below) and entered into the TWN Joint Agreement ("TWN JA") with L&M Energy Limited ("L&M"). Subsequent to the completion of the TWN acquisition, the Company continued with its initial plan for the TWN Licenses, reactivating six Tikorangi wells. The Ranui Permit in the East Coast Basin was relinquished.

For further information see *Management's Discussion & Analysis* for the years ended December 31, 2012 and December 31, 2013.

Taranaki Basin:

NZEC is the Operator of all Petroleum Mining Licences ("PMLs"), Petroleum Mining Permits ("PMPs") and Petroleum Exploration Permits ("PEPs") in which it has an interest. It holds a 50% interest, with L&M, in the PML 38138 ("Tariki Licence"), PML 38140 ("Waihapa License") and PML 38141 ("Ngaere Licence") (collectively the "TWN Licences") with 8 wells in production.

NZEC has a 100% interest in PMP 55491 ("Copper Moki PMP") which was subdivided from the Eltham Permit during 2014 (with 5 wells and 1 well currently in production), a 100% interest in PEP 51150 (the "Eltham Permit") (with 5 wells), and also a 65% interest in PEP 51151 (the "Alton Permit") with L&M.

In regard to midstream assets, NZEC holds a 50% working interest (with L&M) 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 oil handling and pipeline throughput, gas processing, and produced water handling and disposal.

East Coast Basin:

NZEC retains a 100% interest in, and is operator for, PEP 52976 ("East Cape Permit") where the company is advancing its technical understanding of the East Coast shales.

2014 YEAR IN REVIEW AND 2015 OUTLOOK

The first six months of 2014 saw expectations for test production from the reactivation of the Waihapa and Ngaere wells, with the Waihapa 2 well (artificial lift through hydraulic pump system) and Toko 2 well (electric submersible pump) the main activities. These tests provided valuable data. Production remained at ~220b/d levels for the first half of the year.

The second six months of the year saw production plateau around the 200b/d level before falling by year end to 150b/d with the additional impact on the Company of falling commodity prices for oil. During this period, the main Company activities revolved around reducing the group cost structure and, operationally, converting the Waihapa 2 well to a test jet pump operation by year end. The Company also raised further equity by private placement to a new shareholder, Geoservices Limited, in December.

In the first quarter of 2015, the Company raised further equity from Geoservices and repaid the New Dawn Limited working capital facility (see *Recent Developments*). The Company anticipates it will continue to be affected by lower commodity prices and lower production levels (around 90b/d) in 2015.

Key activities 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. forward planning for licence and permit renewal due in 2016; and

3. identifying opportunities within the Company assets for development.

ANNUAL & QUARTERLY OPERATING & AND FINANCIAL HIGHLIGHTS

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

1. **Safety -** 300 harm free days in 2014, since the last incident (6 March 2014);

2. **Production -** for the quarter was 15,502 bbl (169 bbls per day) and for the year 72,938 bbl (200 bbls per day);

3. **Sales -** 75,788bbl realised oil sales of $7,911,569 with an average oil sale price of $104.39 per bbl. In line with world markets, by the December quarter realised prices had dropped to $75.84 per bbl. Sales during the quarter were 21,271 bbl for total oil sales of $1,613,224;

4. **Processing revenue -** from the TWN Assets was $1,543,241 after the first full year of operation, with seven customers accessing the range of services to third parties including oil handling and pipeline throughput services, gas processing, and handling and disposal of produced water;

5. **Award -** of the 943.7 acre (3.8km^2) Copper Moki PMP (July 28, 2014) – a subdivision of the producing Copper Moki and Waitapu wells from the Eltham PEP. The permit term is 8 years;

6. **Recertification -** for a further 4 years of the Waihapa Production Station's oil and gas plant;

7. **Cost reduction -** organizational review and implementation of cost saving measures; and

8. **Private Placement -** of $850,000 to Geoservices Limited announced on December 16, 2014. Key components being the issue of 17,000,000 common shares at $0.05 per share together with 17,000,000 warrants at $0.07 (valid for 1 year).

RECENT DEVELOPMENTS

The Company completed a further private placement on 23 March 2015, raising $1,770,000 for the placement of 44,250,000 common shares at a price of $0.04 per share to new and existing investors with Geoservices Limited subscribing for 29,000,000 common shares and increasing their holding in the Company to 19.82% of NZEC's total issued and outstanding common shares with 17,000,000 warrants.

Upon completion of the private placement, two Geoservice's nominees joined the Board of directors of the Company (James Willis and Mark Dunphy) with Mr Willis appointed as Chairman of the Board. Hamish Campbell retired as a director of the Company to facilitate the Board changes.

The Company repaid the New Dawn Energy Limited ("New Dawn") working capital facility on March 31, 2015 comprising a payment of NZD 638,457.34 for all drawings and accrued interest.

On April 23, 2015 it was announced that Mr David Robinson (Chief Executive Officer) had given 3 month's notice of resignation, and that he will retire as a director before the Company annual general meeting on June 16, 2015.

FINANCIAL SNAPSHOT

	For the quarter ended December 31, 2014	For the year ended December 31, 2014	For the year ended December 31, 2013	For the year ended December 31, 2012
Production	15,502 bbl	72,938 bbl	77,484 bbl	162,444 bbl
Sales	21,271 bbl	75,788 bbl	77,820 bbl	162,077 bbl
Price	75.84 $/bbl	104.39 $/bbl	109.09 $/bbl	106.71 $/bbl
Production costs	27.76 $/bbl	27.30 $/bbl	58.73 $/bbl	31.57 $/bbl
Royalties	5.90 $/bbl	9.21 $/bbl	5.98 $/bbl	5.06 $/bbl
Field netback	42.18 $/bbl	67.88 $/bbl	44.38 $/bbl	70.08 $/bbl
Revenue	2,608,747	14,125,396	10,662,879	16,475,971
Pre-production recoveries	Nil	Nil	-	2,449,231
Total comprehensive gain (loss)	(65,513,965)	(79,218,327)	(9,303,312)	(1,235,492)
Finance income (expense)	(59,266)	(283,541)	(97,598)	211,511
Gain (Loss) per share - basic and diluted	(0.41)	(0.49)	(0.12)	(0.03)
Current assets	5,510,069	5,510,069	15,147,197	49,137,637
Total assets	34,362,077	34,362,077	116,782,687	116,059,939
Total long-term liabilities	7,902,421	7,902,421	7,068,585	2,598,840
Total liabilities	10,590,392	10,590,392	15,337,630	23,442,632
Shareholders' equity	23,771,685	23,771,685	101,445,057	92,617,307

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 December 31, 2014.

NZEC's Proved + Probable ("2P") reserves, reflecting the Company's 100% interest in the Copper Moki Permit and its 50% interest in the Waihapa and Ngaere PMLs, are estimated at 979,000 barrels of oil (1,300,000 barrels of oil equivalent[1]) with an after tax net present value discounted at 10% (at December 31, 2014) of $26.8 million.

2014 is the first full year of TWN production under Company control, accordingly the actual figures for 2014 TWN production show variances with the assumptions included in the 2013 Form 51-101F1 Statement of Reserves Data which were based on intermittent production by the previous owners and only 2 months production from NZEC.

In regard to the particular variances, the Company notes that:

1. **Copper Moki** - showed small increases in reserves, after production, which reflect a flattening decline curve in production during 2014;
2. **TWN Ngaere 1** - showed a decrease after testing;
3. **TWN Toko 2B** - showed zero reserves due to a failure of the electrical submersible pump ("ESP");
4. **TWN Waihapa H1** - showed a production decrease especially in the third quarter of 2014 due to a mechanical obstruction of the well bore; and
5. **Natural Gas Liquids -** natural gas liquids have been excluded from the reserves, as the natural gas volumes produced are insufficient to run the liquid extraction plant at the Waihapa Production Station.

Overall, oil reserves reduced by 127,000 bbl, excluding production. See the Company's *Form 51-101F1 Statement of Reserves Data* dated April 29, 2015 which is filed on SEDAR for full information on the Company reserves and in particular, *Part 4 Reconciliation In Changes In Reserves*.

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

New Zealand Energy Corp. OIL AND GAS RESERVES SUMMARY As at December 31, 2014 Forecast Prices and Costs				
	Light & Medium Oil	Natural Gas	Natural Gas Liquids	Barrels Oil Equivalent
CATEGORY	Net Mstb	Net MMcf	Net Mstb	Net Mboe
Proved				
Developed Producing	350.2	625.2	0.0	454.4
Developed Non-Producing	191.1	581.7	0.0	288.0
Undeveloped	110.5	78.1	0.0	123.6
Total Proved	**651.8**	**1,285.1**	**0.0**	**866.0**
Probable	327.5	662.7	0.0	437.9
Proved and Probable	**979.3**	**1,947.8**	**0.0**	**1,303.9**

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.

New Zealand Energy Corp. SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE As at December 31 2014 Forecast Pricing and Costs						
	After Income Tax					Unit Value
RESERVES CATEGORY	0% $000	5% $000	10% $000	15% $000	20% $000	10% ($/boe)
Proved						
Developed Producing	8,890.1	7,679.5	6,801.9	6,143.0	5,622.7	14.98
Developed Non-Producing	10,479.3	8,981.2	7,708.4	6,660.0	5,807.8	26.77
Undeveloped	1,341.4	542.8	16.0	-327.5	-551.7	0.13
Total Proved	**20,710.8**	**17,203.5**	**14,526.3**	**12,475.5**	**10,878.7**	**16.77**
Probable	24,165.4	16,834.1	12,336.0	9,435.2	7,470.1	28.16
Proved and Probable	**44,876.3**	**34,037.6**	**26,862.3**	**21,910.7**	**18,348.8**	**20.60**

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. See also *NZEC's Business*, *Permit Expenditure Requirements*, *Reserves Update, Results of Operations, Petroleum Property Activities* and *Capital Spending* in respect of the below reviewed assets.

Taranaki Basin

TWN Petroleum Mining Licence and Copper Moki Petroleum Mining Permit

In regard to TWN, during 2014 the Company undertook the following operations:

1. Installation of an ESP at the Toko B well. The well is currently producing on a rotation basis;

2. Recompletion of the Waihapa-2 well in the Mt Messenger formation. The well was shut-in pending installation of an improved artificial lift system which was commissioned in December 2014. The well remains on test. The Company also reactivated the Waihapa-8 well in the Mt Messenger formation using heated lift gas when available;

3. Installation of artificial lift at the Waitapu-2 well, Copper Moki by hydraulic pump. This has produced an additional 17,371 bbls by the end of 2014; and

4. The shutting in of the Copper Moki-3, well.

Eltham Petroleum Exploration Permit

During the year, 943.7 acres were subdivided from the Eltham Permit to create the Copper Moki PMP (encompassing the Company's Copper Moki and Waitapu oil discoveries). The remaining acreage of the Eltham Permit is 46,444.2 acres (187.953 km^2), of which approximately 40,389 acres is onshore. The Company continues to assess exploration activities in the Eltham PEP.

Alton Petroleum Exploration Permit

The work program for the Alton Permit required the Company to submit a technical study during 2014 and drill an exploration well by November 22, 2014. Drill targets have been identified. Certain conditions associated with the land use consent have prompted the joint venture to lodge an appeal to have consent conditions modified. A mediation process (under the auspicious of the Environment Court) is being progressed at the time of this MD&A. In order to allow time for the appeal and mediation, NZEC and L&M requested and have been granted an extension to the drill date to November 22, 2015.

Manaia Petroleum Exploration Permit

The Company relinquished its interest in the Manaia Permit during the year.

TWN Midstream Assets

There are seven customers accessing services for oil handling and pipeline throughput, gas processing, and handling and disposal of produced water. Services are also provided to Contact Energy in relation to operation of the Ahuroa gas storage facility.

The Company reached agreement with a gas marketing counterparty to transport gas along a section of the TAW gas pipeline for a term of four years with a five-year right of renewal. The arrangement is expected to generate between NZ$250,000 and NZ$1 million revenue per year (net to NZEC). First gas commenced flowing on May 5, 2014, with initial revenue earned being applied as the TWN JA's contribution to the capital cost originally incurred by the counterparty. The TWN JA fulfilled its capital contribution at the end of August 2014, from which point forward the TWN JA has been receiving the proceeds from the revenue associated with this arrangement.

The Waihapa Production Station's oil and gas handling facilities were fully certified during the year until 2018.

East Coast Basin

The Company completed fieldwork and geochemical studies in 2014. In 2015 the main work programme commitment is to reprocess 145km of 2D seismic and acquire 40km of new 2D seismic.

In June, 2014 the Company relinquished its interests in the Castlepoint and Wairoa petroleum exploration permits.

SUMMARY OF QUARTERLY RESULTS

	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)

	2013-Q4 $	2013-Q3 $	2013-Q2 $	2013-Q1 $
Total assets	116,782,687	105,313,813	127,318,182	129,545,992
Exploration and evaluation assets	51,500,037	55,859,632	52,357,470	49,610,922
Property, plant and equipment	49,169,997	26,621,043	26,135,651	25,793,089
Working capital	6,878,152	4,748,797	9,517,742	17,533,636
Revenues	4,108,911	1,519,010	2,109,700	2,925,258
Accumulated deficit	(35,099,834)	(27,292,947)	(24,616,053)	(22,386,089)
Total comprehensive income (loss)	(5,963,723)	1,347,788	(6,000,775)	1,313,397
Basic (loss) earnings per share	(0.06)	(0.02)	(0.02)	(0.02)
Diluted (loss) earnings per share	(0.06)	(0.02)	(0.02)	(0.02)

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

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED DECEMBER 31, 2014 AND FOR THE YEAR ENDED DECEMBER 31, 2014

This section of the MD&A provides analysis of the Company's operations in respect of the last quarter of 2014 ("Three Month Period") and for the year ended December 31, 2014 ("Year End") against results achieved for the year and quarter ended December 31, 2013. See *2014 Year In Review* for a summary of 2014 operational events and activities.

Production and sales

	Three Month Period		Year End	
Barrels	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Production – Oil	15,502	16,790	72,938	77,484
Sales – Oil	21,271	13,968	75,788	77,820

Three Month Period: The small decrease in production (compared to 2013) is the result of declines in the TWN Licences.

Year End: Reduced production (compared to 2013) is the result of declines in the Copper Moki wells, partially offset by TWN Licence production for the full year.

Revenues

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Oil Sales	1,613,224	1,617,139	7,911,569	8,489,319
Processing Revenue	259,814	468,671	1,543,241	468,671
Purchased Oil Sold*	-	664,168	3,001,248	664,168
Purchased Condensate Sold**	-	1,506,068	1,481,664	1,506,068
Royalty***	(125,481)	(147,134)	(697,792)	(465,347)

Note. In respect to Oil Sales, revenue is derived from oil sales volume, oil price (based on dated Brent) and exchange rate. The realised per barrel price reflects dated Brent oil pricing during the respective periods.

Three Month Period: Total oil sales of 21,271bbl (2013: 13,968bbl) realised $1,613,224 (2013: $1,617,139), or $75.84 per bbl (2013: $109.09). Oil sales during the Three Month Period reflect the drawdown in oil inventories. Processing revenues, from Waihapa Production Station, were low during the Three Month Period following a reclassification of $160,610 in recoveries as "Other Revenue".

Year End: Total oil sales of 75,788bbl (2013: 77,820bbl) realised $7,911,569 (2013: $8,489,319), or $104.39 per bbl (2013: $109.09). Oil sales includes the sale of oil extracted from the processing of produced water through the Waihapa Production Station (2014: 1,441bbl; 2013: Nil). Processing revenues reflects a full year of operation from the Waihapa Production Station (compared to 2 months in 2013).

**Purchased Oil Sold*: During the year, until May 1, 2014, the Company purchased L&M's 50% share of crude oil produced from the TWN Licenses and subsequently sold the purchased oil to a major oil company. The Company recorded the cost of the purchased oil from L&M at the time of delivery immediately before the Company's point of delivery to the oil company.

***Purchased Condensate Sold*: During the year, until March 1, 2014 the Company purchased condensate from a third party for its operational purposes and subsequently sold the condensate to a major oil company. Since March 1, 2014, the Company entered into a new arrangement with the third party, whereby the third party retains the risk and rewards related to ownership of the condensate. Hence the Company no longer records any revenue (or associated costs) from condensate provided by the third party.

****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 origin of production. 2014 reflects a full year of TWN Licences operation.

Production Costs

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Production Costs	(54,548)	606,153	2,069,256	4,570,294

Three Month Period: Production costs during the Three Month Period were low following a reclassification of costs between Production Costs and General and Administrative Expenses. On a normalised basis the Three Month Period costs were $590,563. The production cost per barrel at $27.76 (2013: $43.40) has been calculated using the normalised figure and is mainly impacted by the use of sales volume in the denominator to calculate netback (see *Non-IFRA Measures)*.

Year End: 2014 benefits from the full year effect of costs efficiencies gained through the installation of production facilities on the Copper Moki Permit during 2013 and the well testing undertaken in Copper Moki during 2013. The cost focus during 2014, especially from the second quarter onwards saw a reduction in overall costs incurred.

Processing Costs

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Processing Costs	1,008,265	-	1,699,489	-

Processing Costs: These costs represent direct costs associated with operation of the TWN Assets acquired in the fourth quarter of 2013. The Three Month Period figure is high following a reclassification of intra-group gas sales between Processing Costs and Gas sales arising in the third quarter of 2014 and the Third Month Period drop in oil price which has impacted the value of the "oil inventory in the pipeline" ($176,671).

Purchased Oil and Condensate – see discussion under *Revenue*

Depreciation

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Depreciation	953,121	790,242	3,738,132	3,193,785

Depreciation is calculated using the unit-of-production method by reference to the ratio of production in the period to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to access those reserves.

Three Month Period and Year End: The increase in 2014 reflects the lower reserves in Copper Moki used in the depletion calculation together with the full year effect of the TWN acquisition (with oil production being comparable).

Stock Based Compensation

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Stock Based Compensation	40,617	(626,754)	544,843	685,257

Three Month Period: In the fourth quarter of 2013 the decrease ($626,754) was due to current-quarter adjustments resulting from the forfeiture of options by employees and consultants who left the Company. In the Three Month Period the expense ($40,617) is also proportionally lower than the full year for the same reason.

Year End: The decrease in stock-based compensation corresponds to a lower fair value per option granted, whilst also reflecting the downward adjustments resulting from the forfeiture of options by employees and consultants who left the Company.

General and Administrative Expenses

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
General & Admin	2,126,702	2,856,161	7,149,003	7,197,024

Three Month Period: The reduced costs during the Three Month Period compared to the fourth quarter of 2013, reflect in part the steps taken to 'right size' the Company commenced in the middle of 2014, especially the reduction in professional fees incurred and the use of consultants.

Year End: Total expenses are similar to last year, with salaries and wages reflecting the cost of additional personnel associated with operating the TWN Assets, which were acquired in the fourth quarter of 2013. A larger portion of the Company's overhead is also being expensed (to G&A) during 2014.

Impairment

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Impairment PPE	26,434,146	275,484	26,434,146	275,484
Impairment E&E	41,313,171	6,708,960	50,644,185	6,708,960

Impairment – PP&E: The impairment in the Three Month Period reflects the writedown of the Copper Moki permit by $16,349,423 and the TWN Licences by $10,084,723. Both impairments were the result of the reduction in commodity prices, and in the case of the TWN Licences, the reduction in reserve estimates relative to 2013.

Impairment – E&E: The Three Month Period impairment reflects an assessment undertaken after subdivision of the Eltham PEP from the Copper Moki PMP. The existing exploration wells are unlikely to access proved and probable reserves in the near term (in part due to the economics arising from the deterioration of commodity prices). In addition, the Wairoa, Castlepoint and Manaia PEPs were relinquished in the second quarter of 2014. In 2013 the Ranui PEP was also relinquished.

Net Finance Expense

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Net Finance Expense	59,266	30,804	283,541	97,598

Three Month Period & Year End: the Company's finance expense increased mainly due to the accretion expense of the higher asset retirement obligations incurred from the acquisition of the TWN Licenses and TWN Assets and also the interest costs arising from the New Dawn Working Capital Facility.

Exchange Difference on Translation of Foreign Currency

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Exchange Difference – gain (loss)	4,727,456	1,843,164	4,889,115	5,804,279

Exchange Differences: Exchange difference 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 & Year End: The NZD strengthened against the CAD over the Three Month Period moving from .8668 at September 14, 2014 to .9043 at December 14, 2014 and over the year from .8734 at December 2013 to .9043 at 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 the 2013 and 2014 years:

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
Taranaki Basin	252,639	520,569	366,055	12,701,648
East Coast Basin	185,822	602,698	637,352	4,449,678
Total	**438,461**	**1,123,267**	**1,003,407**	**17,151,326**

During 2014 the majority of E&E expenditure was of a G&G nature. In 2013, expenditure was primarily in the Eltham PEP (wells) and Wairoa PEP (seismic).

CAPITAL SPENDING

	Three Month Period		Year End	
C$	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2013
TWN Acquisition	-	16,145,288	-	16,145,288
TWN Assets	580,954	1,596,847	2,989,436	1,596,847
Copper Moki	(277,621)	569,536	267,408	3,964,680
Other	(42,506)	12,909	105,237	1,826,880
Total	**260,827**	**18,324,580**	**3,362,081**	**23,533,695**

Expenditure in the TWN Assets is related to activities surrounding producing wells and also the capitalisation of the Waihapa Production Station "turnaround" project - see *Property Review & Outlook* section. In 2013 expenditure was mainly for the purchase of 2 ESPs.

The Three Month Period Copper Moki capital spending reflects a transfer of certain equipment items to inventory. The 2013 capital expenditure mainly relates to expenditure on Copper Moki facilities and Waitapu 2 artificial lift.

"Other" relates to non-field capital spend. The Three Month Period net reduction recognises the transfer of pigging valves to inventory. The 2013 Year End spend related to the purchase of 4 HSU packages and the SunSystems financial package implementation.

USE OF PROCEEDS

Gross (and net) proceeds from the private placement, completed on December 16, 2014, amounted to $850,000. The anticipated and actual use of the net proceeds was for general working capital purposes.

COMMITMENTS

As at December 31, 2014, the Company had the following undiscounted contractual obligations:

	2015	**2016 to 2017**	**2018 and onwards**	**Total**
Accounts payable	1,908,755	-	-	1,908,755
Working Capital Facility	411,496	-	-	411,496
Operating lease obligations (1)	192,864	182,779	-	375,643
Contract and purchase commitments	309,669	532,651	849,672	1,691,992
Environmental obligations (2)	353,503	-	15,490,416	15,843,919
Minimum work program requirements (3)	6,843,000	22,033,000	5,652,000	34,528,000
Total	**$10,019,287**	**$ 22,748,430**	**$ 21,992,088**	**$ 54,759,805**

(1) The Company has office leases for its offices in Wellington and New Plymouth.
(2) The Company has recognized an undiscounted asset retirement obligation of $15.8 million. See Note 10 Financial Statements.
(3) The Company also has various ongoing minimum work program commitments which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets. See Permit Expenditure Requirements following.

PERMIT EXPENDITURE REQUIREMENTS

The Company undertakes oil and gas exploration and development activities and has contractual commitments under various agreements to complete certain exploration activities. The Company and, where relevant, the joint arrangement partner at the permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an interest in permits, where practical. The Company's total commitments include those that are required to be incurred to maintain its permits in good standing during the current permit term, prior to the Company committing to the next stage of the permit term, where additional expenditure would be required.

Maintaining the permits in good standing during the permit term is based on the fulfilment of the minimum work program and is not based on a specific expenditure level. The table below reflects management's estimates of future expenditures required to complete the minimum work programs required to maintain its permits in good standing, as at December 31, 2014. As at December 31, 2014, $723,000 of the minimum work program requirements which are due to be incurred during 2015 relate to permits associated with the Company's producing oil and gas properties, while the balance of the minimum work program requirements for 2015 ($6,120,000) relates to exploration permits.

Properties	Type	2015 $	2016 $	2017 $	2018 $	2019 $	Total $
Taranaki Basin							
Copper Moki Permit[(1)]	Producing	723,000	-	-	-	-	723,000
Eltham Permit [(2)]	Exploration	470,000	-	4,069,000	-	-	4,539,000
Alton Permit [(3)]	Exploration	3,028,000	265,000	3,027,000	-	-	6,320,000
		4,221,000	265,000	7,096,000	-	-	11,582,000
East Coast Basin							
East Cape Permit [(4)]	Exploration	2,622,000	9,020,000	5,652,000	5,652,000	-	22,946,000
		2,622,000	9,020,000	5,652,000	5,652,000	-	22,946,000
Total		**6,843,000**	**9,285,000**	**12,748,000**	**5,652,000**	**-**	**34,528,000**

Notes:

(1) Copper Moki: 1.3-km gas pipeline required to be built within 12 months of award, connecting the Waitapu site to existing pipeline infrastructure.

(2) Eltham: 2015 - advanced 2D/3D processing to de-risk selected Miocene targets; 2017 – drill an exploration well.

(3) Alton: 2015 - drill a commitment well by November 22, 2015. 2016: Advanced 2D/3D processing to evaluate sub-thrust targets; 2017 – drill a further exploration well.

(4) East Cape: 2015 – reprocessing 145 km of 2D seismic and acquiring 40 km of new 2D seismic data; 2016 - drill an exploration well by the second quarter of 2016.

The amounts above represent the anticipated expenditure requirements for each year necessary to complete the minimum work program and maintain each of the permits in good standing; otherwise, the relevant permit must be surrendered.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2014, the Company had $1,121,967 in cash and cash equivalents (2013: $4,902,888) and $2,822,098 in working capital (2013: $6,878,152). During the year ended December 31, 2014, the Company disposed of a number of non-core assets for total net proceeds of $1,533,602, which contributed to the Company's working capital at December 31, 2014.

The Company continues to pursue opportunities to expand its financial capacity in order to enable it to undertake the activities required to further exploit the producing permits it holds, with the objective of increasing petroleum production. In that regard:

1. September 2014: the Company secured a working capital facility with New Dawn, the parent company of L&M, for up to NZ$5 million. The facility was repaid on March 31, 2014 in accordance with the terms of the facility – the total drawings and accrued interest repaid amounted to NZD 638,457;

2. December 2014: the Company, by private placement of ordinary shares with Geoservices Limited, raised C$850,000 (17,000,000 shares at C$0.05 plus 17,000,000 warrants at C$0.07) to meet working capital requirements; and

3. March 2015, subsequent to balance date, the Company raised C$1,770,000 by a further private placement of ordinary shares (44,250,000 shares at C$0.04). Under the private placement, Geoservices Limited subscribed for a further 29,000,000 shares and now holds 19.82% of voting shares in the Company. The proceeds of the placement will be used primarily to maintain and preserve the Company's interest in its properties and for general working capital purposes.

The Company's objective is to rebuild its capital base to sustain the future development of the business. The Company's capital includes share capital and the cumulative deficit. The Company's objective when managing capital is to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders. Due to the nature of the oil and natural gas industry, budgets and forecasts are reviewed regularly in light of the success of the expenditures and other opportunities which may become available to the Company.

The Company's ability to continue as a going concern is dependent on its ability to expand its financial capacity in order to:

1. pay its obligations as they become due; and also

2. fund near-term activities with the expectation of generating positive cash flow from operations.

The Company's ability to expand its financial capacity, the success of the intended activities, or whether sufficiently profitable operations will be attained from the intended activities, cannot be assured. See the *Consolidated Financial Statements - Note 1, Going Concern*.

CASH FLOW

Operating Activities

For the year ended December 31, 2014, the Company used cash of $1,996,722 (2013: $4,253,214) in operating activities after generating a net loss of $84,107,442 (2013: $15,107,591). The more significant non-cash income statement amounts recorded during the period included $4,053,568 in depreciation and accretion (2013: $3,354,945) and $77,078,331 (2013: $6,984,444) in impairment of both Property Plant & Equipment $26,434,146 (2013: $275,484) and Exploration and Evaluation Assets $50,644,185. For Impairment see *Results of Operations for the Three Month Period and Year Ended December 31, 2014*.

Investing Activities

For the year ended December 31, 2014, the Company used net cash (after disposing of assets for $1,533,602) of $2,979,593 (2013: $37,812,767 excluding the term deposit) in investing activities. Expenditure in 2014 was mainly in property and equipment ($3,782,012 - see *Property Review & Outlook – Producing Wells*.

Financing Activities

During the year ended December 31, 2014, cash provided through financing activities was $1,177,065 (2013: $15,123,622 less repayment of an operating line of credit of $11,557,727), being the drawdown of the New Dawn working capital facility (net of deferred financing costs) $327,065 and private placement proceeds of $850,000. 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:

	December 31, 2014	**December 31, 2013**
	$	**$**
Salary and management fees	2,112,274	3,448,410
Share-based compensation	302,928	883,645
	2,415,202	**4,332,055**

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Included in the amounts above are $1,201,095 (2013: $1,097,000) in management fees paid to J. Proust and Associates Inc., a previously engaged management entity with officers in common. The management fee is inclusive of administrative, finance, accounting, legal, investor relations and management consulting services provided by various employees of J. Proust and Associates.

During the quarter ended September 30, 2014, the Compensation Committee of the Board of Directors reached an agreement with the CEO to defer 33% of the CEO's monthly cash compensation until such time as the Company's financial capacity had suitably improved. This deferred compensation has been accrued and was subsequently paid in March 2015.

In November 2014, the Board of Directors resolved to terminate the management agreement between the Company and J. Proust and Associates effective December 31, 2014.

The Company has entered into a number of transactions with New Dawn and L&M, See the *Financial Statements - Joint Arrangements (Note 3), Working Capital Facility (Note 10) and Purchase of Oil (note 12(a)).*

ESCROWED SHARES AND TRADING SUMMARY

Escrowed Shares

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

Release Date	Number of Common Shares
August 3, 2011	200,000
February 3, 2012	300,000
July 19, 2012	5,853,934
August 3, 2012	6,773,400
February 3, 2013	8,851,200
August 3, 2013	8,851,200
February 3, 2014	8,851,200
August 3, 2014	6,713,400
Total	**46,394,334**

OFF-BALANCE SHEET ARRANGEMENTS

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

ADOPTION OF NEW OR REVISED IFRSs

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

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

The amendments to IAS 32 pertain to the application guidance on the offsetting of financial assets and financial liabilities. The changes focus on four main areas: the meaning of "currently has a legally enforceable right of set-off", the application of simultaneous realization and settlement, the offsetting of collateral amounts, and the unit of account for applying the offsetting requirements. The Company has determined that there is no impact on its consolidated financial statements arising from this standard

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 2017. 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 condensed consolidated financial statements for the years ended December 31, 2014 and 2013:

	December 31, 2014 $	December 31 2013 $
Revenue		
Oil sales	7,911,569	8,489,319
Royalties	(697,792)	(465,346)
	7,213,777	8,023,973
Production costs	(2,069,256)	(4,570,294)
Subtotal (a)	**5,144,521**	**3,453,679**
Barrels of oil sold (b)	75,788	77,820
Field netback [(a)/(b)] $/bbl	**67.88**	**44.38**

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at December 31, 2014, the Company had 187,873,459 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 and 7,251,450 stock options, of which 5,107,450 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 exploration or development projects cannot be assured. In addition, the Company's operations are primarily outside of Canada and are subject to risks arising from foreign exchange and foreign regulatory regimes.

FORWARD-LOOKING INFORMATION

This document contains certain forward-looking information and forward-looking statements within the meaning of applicable securities legislation (collectively "forward-looking statements"). The use of any of the words "will", "objective", "plan", "seek", "expect", "potential", "pursue", "subject to", "can", "could", "hopeful", "contingent", "anticipate", "look forward", and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such forward-looking statements should not be unduly relied upon. The Company believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct. This document contains forward-looking statements and assumptions pertaining to the following: business strategy, strength and focus; the granting of regulatory approvals; the timing for receipt of regulatory approvals; geological and engineering estimates relating to the resource potential of the properties; the estimated quantity and quality of the Company's oil and natural gas resources; supply and demand for oil and natural gas and the Company's ability to market crude oil and natural gas; expectations regarding the Company's ability to continually add to reserves and resources through acquisitions and development; the Company's ability to obtain qualified staff and equipment in a timely and cost-efficient manner; the Company's ability to raise capital on appropriate terms, or at all; the ability of the Company's subsidiaries to obtain mining permits and access rights in respect of land and resource and environmental consents; the recoverability of the Company's crude oil, natural gas reserves and resources; and future capital expenditures to be made by the Company. Actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in the document, such as the speculative nature of exploration, appraisal and development of oil and natural gas properties; uncertainties associated with estimating oil and natural gas resources; changes in the cost of operations, including costs of extracting and delivering oil and natural gas to market, that affect potential profitability of oil and natural gas exploration; operating hazards and risks inherent in oil and natural gas operations; volatility in market prices for oil and natural gas; market conditions that prevent the Company from raising the funds necessary for exploration and development on acceptable terms or at all; global financial market events that cause significant volatility in commodity prices; unexpected costs or liabilities for environmental matters; competition for, among other things, capital, acquisitions of resources, skilled personnel, and access to equipment and services required for exploration, development and production; changes in exchange rates, laws of New Zealand or laws of Canada affecting foreign trade, taxation and investment; failure to realize the anticipated benefits of acquisitions; and other factors. Readers are cautioned that the foregoing list of factors is not exhaustive. Statements relating to *"reserves and resources" are deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the resources described can be profitably produced in the future. This document includes references to management's forecasts of future development, probability of success, production and cash flows from such operations, which represent management's best estimates at the time. The forward-looking statements contained in the document are expressly qualified by this cautionary statement. These statements speak only as of the date of this document and the Company does not undertake to update any forward-looking statements that are contained in this document, except in accordance with applicable securities laws.*

CAUTIONARY NOTE REGARDING RESERVE & RESOURCE ESTIMATES

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