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*").

[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.