NEW ZEALAND ENERGY CORP.

Management's Discussion and Analysis

Year Ended 31 December 2016

(Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") is dated 26 April 2017, for the year ended 31 December 2016. It should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2016 of New Zealand Energy Corp. ("NZEC" or the "Company") 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 associated consolidated financial statements, are presented in accordance with IFRS.

This MD&A includes certain statements which 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, as well as the operation of midstream assets, in New Zealand. The Company's assets are located on New Zealand's North Island in the Taranaki Basin (comprising 285 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 one Petroleum Exploration Permit ("PEP") in which it has an interest. It holds a 50% interest, in the PML 38138 ("Tariki Licence"), PML 38140 ("Waihapa Licence") and PML 38141 ("Ngaere Licence") (collectively the "TWN Licences"). L&M Energy Limited ("L&M") hold the remaining 50%.

NZEC has a 100% interest in PMP 55491 ("Copper Moki PMP") and PEP 51150 (the "Eltham Permit"). Until the Permit was relinquished in November 2016, NZEC also held a 65% interest in PEP 51151 (the "Alton Permit") with L&M (see "*Annual & Quarterly Operating & Financial Highlights*").

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, LPG storage and produced water handling and disposal.

ANNUAL AND QUARTERLY OPERATING & FINANCIAL HIGHLIGHTS

The following are the operating and financial highlights for the quarter and year to date:

1. **Safety:** 650 days harm free since the last incident on 22 March 2015.

2. **TWN Petroleum Mining Licences:** The applications for renewal of the Tariki (PML 38138), Waihapa (PML 38140) and Ngaere (PML 38141) licences were granted in June 2016. Waihapa & Ngaere were renewed for 20 years and Tariki for 5 years (see "*Property Review & Outlook*").

3. **TWN Enhanced Oil Recovery Project (Stages 1&2):** The project is designed to mobilize stranded oil by reducing reservoir pressure through an increase in total fluid production (reservoir voidage) in stages up to 18,000 bpd. The first stage of the project was implemented in quarter 3, with higher rate gas-lift systems installed in Ngaere-1 and in Waihapa-6A. The result has been sustained increases in offtake rates in these 2 wells, a quadrupling of oil production rates from Waihapa-6A, and increased oil rates observed in offset wells. These are encouraging results and provide additional confidence in the project basis and design (see "*Property Review & Outlook*"). Stage 2 is being progressed, with continuous gas-lift being implemented in Ngaere-2 and -3, and an upgrade from 2 to 3 valve gas-lift in Ngaere-1. The average rate for the fourth quarter from the Waihapa Ngaere wells was 80 boe per day (86% oil, NZEC share).

4. **Copper Moki:** Production from Copper Moki-1 was stable during the quarter in response to ongoing waterflood operations. Copper Moki-2 currently produces close to long-term decline trends, and operational optimisation is ongoing. Gas production from both wells continues to decline. The average rate from the Copper-Moki wells for the fourth quarter was 103 boe per day (89% oil); and for the year to date was 167 boe per day (73% oil).

5. **Waihapa Oil Plant:** This had a planned shutdown for 6 days in May to complete statutory inspections and routine maintenance. This shutdown was carried out without harm (maintaining the harm free record). Concurrently the plant control system was upgraded. Overall the plant was found to be in good condition.

6. **Production:** Production for the fourth quarter was 16,799 boe (88% oil) (with an average 183 boe per day); and for the year 80,012 boe (78% oil) (with an average 219 boe per day).

7. **Sales (oil):** Oil sales for the quarter of 14,609 bbl realised $884,008 (with an average oil sale price of $60.51 per bbl); and for the year 60,871 bbl realised $3,195,196 (with an average oil sale price of $52.49 per bbl).

8. **Processing revenue:** The TWN Assets generated $544,972 from processing fees for the quarter, and $2,091,165 for the year, with a number of third party customers accessing a range of services including operation of the Ahuroa gas storage facility, oil handling, pipeline throughput services, gas processing, LPG storage and handling and disposal of produced water.

9. **Annual General Meeting (AGM):** The Company held its AGM on 22 June 2016 with all resolutions being passed, including resolutions to set the number of directors at three (3) and re-elect James Willis, Mark Dunphy and David Llewellyn to the Board.

10. **Eltham**: On 26 August 2016 the application for a change of conditions regarding the Eltham Permit work programme was approved (see "*Property Review & Outlook*").

11. **Alton**: The permit participants relinquished the Permit in November 2016, given the work programme required the drilling of an exploration well by 22 November 2016. The permit participants had unsuccessfully explored options with the New Zealand regulator to defer this commitment (see "*Property Review & Outlook*").

12. **Revolving Credit Facility**: On 7 July 2016, NZEC subsidiary company Taranaki Ventures Limited (TVL) entered into an on demand revolving credit facility with the Bank of New Zealand ("BNZ"), giving the Company the ability to draw down up to NZD500,000. The Company will use the facility for working capital purposes and to fund development opportunities. The facility is secured by way of general security agreement over the present and after acquired assets of TVL with NZEC subsidiaries NZEC Holdings Limited, NZEC Tariki Limited, NZEC Waihapa Limited and NZEC Management Limited guaranteeing the obligations of TVL under the facility.

13. **Restricted Cash/Bonds**: Bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences were previously secured by term deposits. These have been replaced with bonds provided by BNZ, secured as described in "Revolving Credit Facility" above. The NZD375,000 became available for general working capital purposes.

2017 OUTLOOK

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. Continuing the incremental development of the TWN Enhanced Oil Recovery Project and Copper Moki waterflood;

3. Identifying opportunities within the Company assets for low cost developments. This includes opportunities within the currently producing Waihapa, Ngaere and Copper Moki assets as well as those in the Tariki licence that are accessible from existing wells. Given the current low oil price environment, the Company does not intend to undertake capital intensive developments without high certainty at this stage but note this may change with movements in the oil price.

RECENT DEVELOPMENTS

1. **Copper Moki-1:**

Production from Copper Moki-1 and -2 remains substantially above 2015 levels despite Copper Moki-2 declining through most of 2016. The water injection capacity of the Waitapu-2 well was increased from ~500 bwpd to ~1000 bwpd in Q1 2017 in order to accelerate the production benefits from the water-flood.

Injected water production has commenced in Copper Moki-1 during February and the well has a water-cut of 20 to 30%. Data from the waterflood response is being incorporated into updated reservoir analyses and models through the next quarter.

2. Operating Cost Reductions:

The Company has reviewed its operations and is implementing a series of changes. Once completed, the Company expects to achieve a reduction of ~$1 million in annual operating costs. This work included an organizational review and the New Plymouth based position of General Manager Operations has been disestablished with the responsibilities of the position re-allocated to existing personnel in February 2017.

3. Royalty Transfer Transaction:

In March 2017 Taranaki Ventures Limited (TVL) acquired an Overriding Royalty (Royalty Agreement) from a third party which contained an obligation due by a related party of TVL. Concurrently TVL agreed to fully discharge and cancel the related party's obligations under the Royalty Agreement in return for payment from the related party. The common director of the Company and the related party, stood aside from all Board decision making in respect of the arrangements and decisions were made by the independent directors of the Company. Payment to the third party and receipt from the related party is spread over 2 years, with future payments/receipts secured by back-to-back bank guarantees. The arrangement is immediately cash positive for NZEC by the amount of the gain under the arrangement of NZ$154,000.

FINANCIAL SNAPSHOT

	Three months ended 31 December 2016	*Year ended 31 December 2016*	*Year ended 31 December 2015*	*Year ended 31 December 2014*
	bbl	***bbl***	***bbl***	***bbl***
Production	14,750	62,767	42,012	72,938
Sales	14,609	60,871	44,856	75,788
	$/bbl	***$/bbl***	***$/bbl***	***$/bbl***
Price	60.51	52.49	60.52	104.39
Production costs	7.24	22.14	28.11	27.30
Royalties	4.31	2.97	4.46	9.21
Field netback	48.96	27.38	27.95	67.88
	$	**$**	**$**	**$**
Revenue	1,476,623	5,866,607	4,937,518	14,125,396
Total comprehensive loss	(2,339,427)	(5,513,200)	*(5,240,854)	(79,218,327)
Net finance expense	(104,965)	(317,644)	(268,936)	(283,541)
Loss per share – basic and diluted	(0.010)	(0.023)	*(0.027)	(0.490)
Current Assets		1,837,928	4,071,289	5,510,069
Total Assets		23,066,531	28,200,578	*30,168,512
Total long-term liabilities		10,849,429	11,006,673	7,902,421
Total liabilities		12,460,491	12,133,031	10,590,392
Shareholders' equity		10,606,040	16,067,547	*19,578,120

Note: The abbreviation bbl means barrel of oil.

Note: Restated for Change in Accounting Policy. See details provided in *Consolidated Financial Statements - Note 2, Changes in accounting policies

RESERVES

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 2016.

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 1,024,000 barrels of oil (1,213,000 barrels of oil equivalent, including associated gas[1]) with an after tax net present value discounted at 10% (at 31 December 2016) of $21.7 million.

Technical revisions added ~43,000 bbl of oil reserves in 2016. After producing ~63,000 bbl of oil, the net reduction in remaining oil reserves at 31 December 2016 was ~20,000 bbl. Excluding production:

1. **Copper Moki** – increased oil reserves attributable to the waterflood response; and

2. **Waihapa/Ngaere** - increased oil reserves attributable to results from Stage-1 of the enhanced oil project.

See the Company's *Form 51-101F1 Statement of Reserves Data* dated 11 April 2017 which is filed on SEDAR for full information on the Company reserves and in particular, *Part 4 Reconciliation of 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.

OIL AND GAS RESERVES SUMMARY Forecast Pricing and Costs As at 31 December 2016	Light & Medium Oil		Natural Gas		Barrels Oil Equivalent	
Reserves Category	Gross[2] Mstb[1]	Net[3] Mstb	Gross MMcf[1]	Net MMcf	Gross Mboe[1]	Net Mboe
Proved						
Developed Producing	416.1	374.3	533.3	471.2	505.0	452.8
Developed Non-Producing	146.6	124.8	163.7	140.9	173.9	148.3
Undeveloped	125.3	108.6	87.7	75.7	139.9	121.2
Total Proved	**688.0**	**607.7**	**784.7**	**687.8**	**818.8**	**722.3**
Probable	335.6	295.5	349.9	306.5	394.0	346.6
Total Proved and Probable	**1,023.6**	**903.1**	**1,134.6**	**994.3**	**1,212.8**	**1,068.9**

(1) Mstb – Thousand barrels; MMcf – Million cubic feet; 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

(2) Gross reserves are the Company's working interest share before the deduction of royalty obligations payable to the New Zealand Government and Origin Energy Resources NZ (TAWN) Limited.

(3) Net reserves are the Company's working interest share after deduction of royalty obligations payable to the New Zealand Government and Origin Energy Resources NZ (TAWN) Limited

SUMMARY OF NET PRESENT VALUES OF FUTURE NET REVENUE Before & After Tax Forecast Prices and Costs As at 31 December 2016	Net Present Value of Future Net Revenues 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	11,593.2	9,934.5	8,547.2	7,470.2	6,633.7	18.88
Developed Non-Producing	7,836.1	4,938.6	3,371.0	2,451.7	1,866.0	22.73
Undeveloped	3,852.8	2,856.2	2,146.0	1,641.5	1,276.2	17.71
Total Proved	**23,282.1**	**17,729.3**	**14,064.2**	**11,563.5**	**9,775.9**	**19.47**
Probable	20,004.8	11,667.4	7,655.0	5,479.9	4,172.5	22.09
Total Proved Plus Probable	**43,287.0**	**29,396.6**	**21,719.1**	**17,043.4**	**13,948.3**	**20.32**

(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 AND OUTLOOK

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

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

TWN Petroleum Mining Licences

The Waihapa and Ngaere PMLs have been renewed for a period of 20 years (from 19 June 2016). The work programmes include requirements to undertake reservoir modelling, field development work and a comprehensive evaluation of prospectivity together with a requirement, if economic, to restore the Waihapa-1B well to production (Waihapa PML) and implement an enhanced oil recovery project (Waihapa and Ngaere PMLs).

Preliminary testing of Waihapa-1B was carried out in Q2 2016 using the jet pump located at the nearby Waihapa-B site. Waihapa-1B did not produce sufficient oil to justify continuing the test. Since then the enhanced oil project has been implemented and it is planned to re-test Waihapa-1B once the field has undergone significant pressure depletion, expected to be in 2018.

The enhanced oil recovery project is designed to mobilize stranded oil by reducing reservoir pressure through increasing total fluid production (reservoir voidage) to levels substantially greater than the natural aquifer can recharge. Stage-1 was implemented in quarter 3, when a new gas-lift valve system was fitted to Waihapa-6 in late July. Oil cut has continued to rise resulting in a quadrupling of oil production from the well. This is an encouraging result and provides additional confidence in the next stage of the project. Stage 2 is being progressed, with continuous gaslift being implemented in Ngaere-2 and -3, and an upgrade from 2 to 3 valve gaslift in Ngaere-1.

Stage 3 of the project design will install an ESP in a central well to achieve overall fluid offtake of 8,000-12,000 bpd. Stage 4 involves an upgrade to the water disposal capacity to match the current WPS processing capacity of 18,000 bwpd. The objective of these stages is to bring total fluid production to levels not seen since 1995. A subsequent stage 5 is also envisaged to enable further oil production optimisation within the plant limits, and will most likely include a further ESP.

The Tariki PML has been renewed for a period of 5 years (from 20 July 2016). The associated work programme requires completion of dynamic reservoir modelling of the Tariki field gas accumulation to assess remaining undeveloped gas, determining the economic viability of the licence resource and either commit to implementation of the preferred development project or surrender of the licence. The Company is currently assessing low risk development opportunities in the Tariki licence. These include returning an existing well to oil production service using artificial lift, recompleting an existing shut-in gas well to become an oil production well, and a short radius sidetrack from an existing gas well to develop up-dip gas volumes.

See also *Permit Expenditure Plans* below.

Copper Moki Petroleum Mining Permit

<u>Copper Moki-1:</u> Production increased through 2016 with quarterly average production in Q1 34 bopd, Q2 47 bopd, Q3 50 bopd, and Q4 52 bopd. Production continued up to approximately 50 bopd and appeared to be stabilising at end 2016. Water influx was only identified at end January 2017, with slight declines to 46 bopd in February 2017 – this still seems to be case in March, so the effects of water influx so far have been limited.

<u>Copper Moki-1 Water Flood:</u> By the end of 2016 129,000 bbls of water had been injected during the waterflood programme. Quarterly production from Copper Moki-1 increased as a consequence of the injection from 34 bopd in Q1-16 to stabilise around 50 bopd by Q3-16 and Q4-16, with no increase in associated water production to end 2016 (see *Recent Developments*). Current oil production rates are greater than seen in this well since mid-2013. It is estimated the waterflood programme has resulted in at least 10,000bbls of incremental production (comparing to rates prior to the waterflood programme without factoring in any associated decline). Produced gas levels and gas-oil ratios have declined since the waterflood commenced, as expected. There are indications pump related mechanical issues may be degrading the wells performance. This continues to be closely monitored.

<u>Copper Moki-2:</u> After running a new pump in December 2015, oil production exceeded expectations through Q1-16. The expected natural decline in production was observed in late April 2016. The Company continues to trial various production modes to manage annulus fluid levels and optimise oil production. As with Copper Moki-1, a decline in gas-oil-ratios has been observed in Copper Moki-2 despite relatively constant oil production. The behaviour is atypical for a Mt Messenger oil pool on depletion drive, and provides an indication the waterflood via Waitapu-2 may also be providing some support to the Copper-Moki-2 pool. Studies are underway to assess this behaviour and the remaining oil and gas in place in this pool.

These initiatives have resulted in increased oil and gas production through the first three quarters of 2016. In October/November 2015 production from Copper Moki averaged 48 boe per day (60% oil) which had increased to an average of 167 boe per day (73% oil) over 2016. In the fourth quarter of 2016 production from Copper Moki has averaged 103 boe/day (89% oil).

Eltham Petroleum Exploration Permit

The Company is assessing exploration opportunities in the Eltham PEP. By March 2017, complete processed data from the seismic ingress overlap survey from the recent adjacent Kapuni licence seismic acquisition (by the Kapuni JV) is expected to be received. This will then be integrated with NZEC's existing dataset and interpreted. The Company received notification from NZP&M (26 August 2016) the Company's application for a change of conditions regarding the Eltham Permit work programme had been approved. This defers its September 2017 well commitment by 6 months to March 2018 to allow for the interpretation of the new data.

Alton Petroleum Exploration Permit

The permit participants (NZEC 65%, L&M 35%) relinquished the Permit in November 2016. The permit work programme required the drilling of an exploration well by 22 November 2016 and current oil prices did not support drilling the prospect (Horoi) in this time frame or the subsequent year. The permit participants unsuccessfully explored options with the New Zealand regulator to defer this commitment.

The Company had no carrying value attributed to the Alton Permit exploration and evaluation expenditure at the time of the relinquishment. See *Annual & Quarterly Operating & Financial Highlights*.

TWN Midstream Assets

Services are provided to Contact Energy in relation to operation of the Ahuroa Gas Storage facility. In addition, other parties are accessing services for oil handling and pipeline throughput, gas processing and transport, and handling and disposal of produced water.

The Company continues to explore opportunities with existing and new customers. A further agreement was signed for third party processing services in October (with volumes being increased at the end of December).

The Waihapa Oil Plant was shut down for 6 days in May for its statutory inspection. Some 33 vessels were cleaned and inspected (maintaining the harm free safety record). Overall the oil plant was found to be in good condition. The requisite engineering verifications were completed in early October 2016 and all but one vessel in the plant has been recertified for operation for 4 years. During the shutdown, the opportunity was also taken to upgrade the plant control system and complete a number of minor maintenance tasks.

SUMMARY OF QUARTERLY RESULTS

	2016 Q4 $	2016 Q3 $	2016 Q2 $	2016 Q1 $
Total assets	23,066,531	27,767,054	27,760,038	26,626,239
Exploration and evaluation assets	-	-	-	-
Oil and gas assets	19,360,187	24,416,925	23,697,976	22,350,797
Working capital	226,866	2,246,930	2,330,257	2,599,423
Revenues	1,476,623	1,356,500	1,574,491	1,458,994
Accumulated deficit	(134,133,724)	(132,152,473)	(131,026,279)	(130,225,100)
Total comprehensive income (loss)	(2,532,614)	(657,210)	(473,974)	(1,849,401)
Basic (loss) earnings per share	(0.010)	(0.005)	(0.004)	(0.004)
Diluted (loss) earnings per share	(0.010)	(0.005)	(0.004)	(0.004)

	2015 Q4 $	2015 Q3 $	2015 Q2 $	2015 Q1 $
Total assets	28,200,578	*26,767,666	*26,258,059	*31,419,736
Exploration and evaluation assets	-	*-	*-	*-
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	*(128,907,840)	*(125,740,126)	*(124,911,681)	*(124,102,921)
Total comprehensive income (loss)	*(1,415,821)	*(599,033)	*(3,108,672)	*(117,328)
Basic (loss) earnings per share	*(0.014)	*(0.004)	*(0.003)	(0.006)
Diluted (loss) earnings per share	*(0.014)	*(0.004)	*(0.003)	(0.006)

Note: Restated for Change in Accounting Policy. See details provided in *Consolidated Financial Statements - Note 2, Changes in accounting policies

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

RESULTS OF OPERATIONS FOR THE THREE MONTH PERIOD AND YEAR ENDED 31 DECEMBER 2016

This section of the MD&A provides analysis of the Company's operations in respect of the fourth quarter of 2016 ("Three Month Period") and the full year ("Year Ended" or "Twelve Month Period") compared to results achieved for the same periods in 2015. See *Operating & Financial Highlights* and *Property Review and Outlook* for a summary of the fourth quarter and full year 2016 operational events and activities.

Production and sales

	Three Month Period ended 31 December		Year ended 31 December	
Barrels or BOE	**2016**	**2015**	**2016**	**2015**
Production - Oil	14,750	8,683	62,767	42,012
Sales - Oil	14,609	12,246	60,871	44,856
Sales – Gas (BOE)	2,049	2,146	17,245	8,987
TOTAL Production (BOE)	16,799	10,829	80,012	50,999

The production increase results principally from the water flood project started in the Copper Moki-1 pool, and the performance of the Copper Moki-2 well following the downhole pump replacement in mid-December 2015.

Revenues

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Oil Sales	884,008	630,339	3,195,196	2,714,584
Gas Sales	(114,875)	87,844	436,143	327,159
Processing Revenue	544,972	539,475	2,091,165	2,054,883
Purchased light oil sold*	175,680	-	175,680	-
Royalty**	(62,983)	(49,822)	(180,691)	(199,991)
Oil sales per bbl	60.51	51.47	52.49	60.52

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. See *item 7 in "Annual and Quarterly Operating Highlights"* above.

Gas sales for the 2016 Three Month Period were low due to a year to date reclassification of costs between Gas sales and Production costs. If the reclassification was applied consistently during the year, the sales would have been $50,170 (2015: $36,482).

Gas sales for the Twelve month period were affected by the same reclassification. If the reclassification was applied consistently the 2015 sales would have been $164,622.

Purchased light oil sold: The Company has an arrangement with a third party whereby the Company purchases light oil, charges a processing fee and subsequently sells the light oil to the same major oil company to which the Company sells its oil. Any unsold light oil is carried as inventory.

**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 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Production costs	105,793	464,670	1,347,697	1,260,936
Production cost per bbl	7.24	37.94	22.14	28.11

Three Month Period: Production costs were lower due to a year to date reclassification of costs between Production Costs and Gas Sales. If the reclassification was applied consistently during the year the costs would have been $270,838 (2015: $413,308). Oil inventory value changes* reduced costs by ~$70,000 (2015: increase ~$200,000). If the changes due to the reclassification are accounted for and oil valuation excluded, the comparable underlying production costs would have been $342,295 (2015: $213,882) and the production cost per barrel would be $23.43 (2015: $17.47).

Excluding the changes above, underlying Production costs increased compared to 2015 due to operational water flood costs ($80,000); costs associated with the enhanced oil project ($20,000); and variable operating costs following increased production ($30,000).

**Oil inventory value changes. In Q4-2016 higher oil prices resulted in an increase in oil inventory value, hence a reduction in production cost. In Q4-15 lower oil inventory volumes (sales being greater than production) resulted in a reduction in oil inventory value, hence an increase in production cost.*

Year Ended: Production costs for the Twelve Month period were affected in a similar way to the Three Month period. If the reclassification was applied consistently the 2015 costs would have been $1,098,399. Oil inventory value changes* reduced full year costs by ~$195,000 (2015: increase ~$125,000). If the changes due to the reclassification are accounted for and oil valuation excluded, the comparable underlying production costs would have been $1,543,414 (2015: $973,606) and the production cost per barrel would be $25.36 (2015: $21.70).

Excluding the changes above, the underlying Production costs increased compared to 2015 due to operational water flood costs ($300,000); costs associated with the enhanced oil project ($80,000); and variable operating costs following increased production ($180,000).

Processing costs

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Processing costs	195,413	253,976	908,172	938,265

The 2016 costs for the Three and Twelve Month periods are lower by ~$85,000 and ~$60,000 respectively due to a change in oil price which has impacted the value of the "oil inventory in the pipeline". Oil volume in the pipeline is largely constant. The 2015 costs for the Twelve-Month period also benefited from a $30,000 credit received for historical electricity overcharges.

Depreciation and depletion

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Depreciation and depletion	513,136	393,254	2,043,583	1,630,961

Depletion on oil and gas assets is calculated using the unit-of-production method by reference to the ratio of production during the Three and Twelve Month Periods 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.

The increase in 2016 principally reflects the higher levels of production.

Impairment

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Impairment PPE	2,955,857	1,674,100	2,955,857	1,674,100

Impairment – PP&E: The impairment in 2016 reflects the write-down of the TWN Asset associated with the utilisation of plant and related infrastructure (2015: Copper Moki permit $1,674,100 – resulted from the reductions in commodity prices and remaining reserve estimates). See further breakdown in *Consolidated Financial Statements - Note 7, Oil and Gas Assets*.

Share Based Compensation

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Share Based Compensation	12,386	11,413	51,099	(7,513)

The 2016 expense reflects the fair market value attributed to options issued in November 2015. The 2015 credit reflects 1,097,375 of options forfeited at a fair value of $54,641, and an expense of $47,128 for options issued in November 2015. See also further detail in *Consolidated Financial Statements - Note 10b Share Purchase Options.*

General and Administrative Expenses

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
General and administrative expense	984,118	1,086,619	4,124,088	4,529,465

The reduced costs recorded for the Twelve Month Period compared to 2015 reflect the ongoing focus on cost reductions, in response to the lower oil price. Of note are the reductions in Professional and Consulting fees, Insurance, and Administrative expenses. See further breakdown in *Consolidated Financial Statements - Note 10, General and Administrative Expenses*.

Finance Expense

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Finance expense	104,965	75,850	317,644	268,936

Finance expense during the Three and Twelve Month Periods reflects the accretion expense associated with asset retirement obligations.

Abandonment Provision movement

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Abandonment provision movement	(1,387,342)	395,081	(1,012,307)	481,828

Abandonment provision movement during the Three and Twelve Month Periods reflects the change in estimate for abandonment on wells which have previously been fully impaired. The credit in 2016 is principally due to a review and subsequent change in abandonment cost assumptions. The movement in the Twelve Month period ended 31 December 2016 was also affected by the impact of a renewal, in quarter two, of the Tariki PML for a reduced 5-year term (previously assumed 20 years).

Exchange Difference on Translation of Foreign Currency

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Exchange Difference – gain / (loss)	(139,310)	*1,751,893	(233,439)	*669,689
Exchange rate at beginning of period	0.9516	0.8560	0.9498	0.9043
Exchange rate at end of period	0.9385	0.9498	0.9385	0.9498

Note: Restated for Change in Accounting Policy. See details provided in *Consolidated Financial Statements - Note 2, Changes in accounting policies

Exchange differences arise from the translation of foreign operations and monetary items (largely based in NZD).

The NZD weakened against the CAD over the 2016 Three and Twelve Month Period resulting in translation losses. A large gain over the 2015 Three and Twelve Month period is due to the significant strengthening in the rate over the period.

PETROLEUM PROPERTY ACTIVITIES, OPERATIONS AND CAPITAL EXPENDITURES

Capital Expenditure

The Company recognised the following additions in Oil and gas assets during the Three and Twelve Month Periods:

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
TWN Assets	4,946	22,365	269,838	147,873
Copper Moki	(2,860)	142,813	66,761	202,600
Other	-	-		(22,066)
TOTAL	**2,086**	**165,178**	**336,600**	**328,407**

In the TWN Assets, 2016 spend relates to the oil plant inspection and certification and Waihapa-1B jet pump installation; while in 2015 the spend related to activities surrounding producing wells and the capitalisation of a new air compressor for the Waihapa Production Station.

In Copper Moki, 2016 expenditure relates to Copper Moki-2 workover and water flood; while in 2015 spend relates to expenditure on Copper Moki facilities.

COMMITMENTS

See details provided in *Consolidated Financial Statements - Note 17, Commitments*.

PERMIT EXPENDITURE PLANS

See details provided in *Consolidated Financial Statements - Note 18, Permit Expenditure Plans*.

LIQUIDITY AND CAPITAL RESOURCES

	31 December 2016	31 December 2015
	$	**$**
Cash and cash equivalents	57,969	431,976
Revolving credit facility	(363,183)	-
Working capital	226,866	2,944,931

The Company continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production, 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.

A number of factors have contributed to improving the Company's liquidity position during the year. These include increased oil production, a continuing emphasis on cost control and reduction (e.g. General and Administrative Expenses), implementation of a revolving credit facility and the release of the previously restricted cash. In early 2017 further operating cost reductions were implemented and a commercial royalty transfer transaction completed (see "*Recent Developments*"), while key development activities are outlined in 2017 "*Outlook*".

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*.

CASH FLOW

	31 December 2016	31 December 2015
Cash provided by / (used in)	**$**	**$**
Operating activities	(782,961)	(1,659,236)
Investing activities	79,739	(431,642)
Financing activities	-	1,339,221

Cash was used from operating activities after generating a net loss of $5,225,884 (2015: $5,910,543). The more significant non-cash items contributing to the net loss during the Twelve Month Period included $2,356,206 in depreciation and accretion (2015: $1,903,990), and $2,955,897 (2015: 1,674,100) in impairment. Offsetting these were working capital changes $79,888 (2015: ($234,769)), and abandonment provision $1,012,307 (2015: ($481,828)) which were positive.

Investing activities were for the purchase of oil and gas assets, less $345,655 in 2016 for the release of restricted cash.

Financing activities in 2015 were 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.

RELATED PARTY TRANSACTIONS

See details provided in *Consolidated Financial Statements - Note 15, Related Party Transactions*.

OFF-BALANCE SHEET ARRANGEMENTS

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

CHANGE OF ACCOUNTING POLICY and 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 31 December 2015, with the exception of a change in the policy of accounting for exploration and evaluation costs from the full cost to the successful efforts method. See details provided in *Consolidated Financial Statements - Note 2, Changes in accounting policies; and – Note 2, Adoption of New or Revised IFRSs.*

NON-IFRS DISCLOSURES

NZEC uses certain terms for measurement within this MD&A which 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 the 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 three and twelve month periods ended 31 December 2016 and 2015:

	Three Month Period ended 31 December		Year ended 31 December	
	2016	**2015**	**2016**	**2015**
	$	**$**	**$**	**$**
Net Revenue				
Oil sales	884,008	630,339	3,195,196	2,714,584
Royalties	(62,983)	(49,822)	(180,691)	(199,991)
Production Costs	(105,793)	(464,670)	(1,347,696)	(1,260,936)
Sub-total net revenue (a)	715,232	115,847	1,666,809	1,253,657
Barrels of Oil sold (b)	14,609	12,246	60,871	44,856
Field Netback [(a)/(b)] $/bbl	**48.96**	**9.46**	**27.38**	**27.95**

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at 31 December 2016, 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 and 12,284,200 share options, of which 2,284,200 stock options have vested and are exercisable.

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 venture parties 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.

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 which 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 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, affecting the 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 which prevent the Company from raising the funds necessary for exploration and development on acceptable terms or at all; global financial market events which 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 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 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 which can be estimated with a high degree of certainty to be recoverable. It is likely the actual remaining quantities recovered will exceed the estimated proved reserves. Probable Reserves are those additional reserves which are less certain to be recovered than proved reserves. It is equally likely 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 the reserves described can be profitably produced in the future. These statements are based on current expectations which 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 any portion of the reported resources will be discovered and, if discovered, will be economically viable or technically feasible to produce.