Consolidated Financial Statements

Year Ended 31 December 2016

(Expressed in Canadian Dollars)

MANAGEMENT'S REPORT

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

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

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

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

"Michael Adams"
Michael Adams, Chief Executive Officer

"*Derek Gardiner"*
Derek Gardiner, Chief Financial Officer

April 27, 2017

Independent Auditor's Report

To the Shareholders of New Zealand Energy Corp.

We have audited the accompanying consolidated financial statements of New Zealand Energy Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

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

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

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

(signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEET
As at 31 December 2016 and 2015

(Expressed in Canadian Dollars)

	Notes	2016 $	2015* $
Assets			
Current			
Cash and cash equivalents	4	57,969	431,976
Accounts and other receivables	5	808,866	722,144
Prepaid expenses		214,497	326,421
Inventories	6	756,596	2,590,748
Total current assets		**1,837,928**	4,071,289
Non-Current			
Restricted cash		-	356,176
Inventories	6	1,868,416	-
Software and proprietary database		-	189,432
Property, plant and equipment	7	19,360,187	23,583,681
Total non-current assets		**21,228,603**	24,129,289
Total assets		**23,066,531**	28,200,578
Liabilities			
Current			
Revolving credit facility	4	363,183	-
Accounts payable and accrued liabilities		1,247,879	1,126,358
Total current liabilities		**1,611,062**	1,126,358
Non-Current			
Asset retirement obligations	9	10,849,429	11,006,673
Total liabilities		**12,460,491**	12,133,031
Shareholders' equity			
Share capital	10	109,738,706	109,738,706
Foreign currency translation reserve		12,435,010	12,722,326
Share based payments reserve		22,566,048	22,514,355
Accumulated deficit		(134,133,724)	(128,907,840)
Total shareholders' equity		**10,606,040**	16,067,547
Total liabilities and shareholders' equity		**23,066,531**	28,200,578

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2.

Description of business and going concern (Note 1)

These consolidated financial statements are authorized for issuance by the Board of Directors on 26 April 2017.

On

behalf of the Board of Directors

"James Willis"
James Willis, Director

"Mark Dunphy"
Mark Dunphy, Director

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2016 and 2015
(Expressed in Canadian Dollars)

	Note	Number of shares	Share Capital	Share based payments reserve (options)	Share based payments reserve (warrants)	Foreign currency translation reserve	Accumulated deficit	Total equity
			$	$	$	$	$	$
Balance, 31 December 2014		187,873,459	108,000,912	21,172,579	1,349,289	12,052,637	(122,997,297)	19,578,120
Units issued, at $0.04 (net of share issue costs)		44,250,000	1,737,794	-	-	-	-	1,737,794
Share based compensation	10(b)	-	-	(7,513)	-	-	-	(7,513)
Net loss for the period		-	-	-	-	-	(5,910,543)	(5,910,543)
Other comprehensive income for the period		-	-	-	-	669,689	-	669,689
Balance, 31 December 2015*		232,123,459	109,738,706	21,165,066	1,349,289	12,722,326	(128,907,840)	16,067,547
Balance, 31 December 2015		232,123,459	109,738,706	21,165,066	1,349,289	12,722,326	(128,907,840)	16,067,547
Share based compensation	10(b)	-	-	51,693	-	-	-	51,693
Net loss for the period		-	-	-	-	-	(5,225,884)	(5,225,884)
Other comprehensive income for the period		-	-	-	-	(287,316)	-	(287,316)
Balance, 31 December 2016		**232,123,459**	**109,738,706**	**21,216,759**	**1,349,289**	**12,435,010**	**(134,133,724)**	**10,606,040**

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the years ended 31 December 2016 and 2015
(Expressed in Canadian Dollars)

	Notes	2016 $	2015* $
Revenues			
Revenue	11	5,866,607	4,937,518
Expenses and other items			
Production costs	12	1,347,696	1,260,936
Purchased light oil	11	175,680	-
Processing costs		908,172	938,265
Exploration and evaluation costs expensed		-	57,091
Depreciation and depletion	7	2,043,583	1,630,961
Impairment		2,955,857	1,674,100
Share-based compensation	10(b)	51,099	(7,513)
General and administrative	13	4,124,088	4,529,465
Finance expense		317,644	268,936
Foreign exchange loss		24,759	13,992
Inventory write-down		156,220	-
Abandonment provision movement		(1,012,307)	481,828
		11,092,491	10,848,061
Net loss		**(5,225,884)**	(5,910,543)
Other comprehensive income/(loss):			
Exchange difference on translation of foreign currency (i)		(287,316)	669,689
Total comprehensive loss		**(5,513,200)**	(5,240,854)
Basic and diluted loss per share		$ (0.023)	$ (0.027)
Weighted average shares outstanding		232,123,459	222,182,363

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

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2.

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2016 and 2015
(Expressed in Canadian Dollars)

	Notes	2016 $	2015* $
Operating activities			
Net loss for the period		(5,225,884)	(5,910,543)
Changes for non-cash operating items			
Share-based compensation		51,099	(7,513)
Depreciation, depletion and accretion		2,356,206	1,903,990
Abandonment provision movement		(1,012,307)	481,828
Foreign exchange loss		15,736	(35,867)
Inventory write-down		156,220	-
Impairment		2,955,857	1,674,100
Change in non-cash working capital items			
Accounts and other receivables		(93,573)	650,943
Prepaid expenses		106,365	66,525
Inventories		(220,145)	202,066
Accounts payable and accrued liabilities		127,465	(684,765)
Cash provided by (used in) operating activities		**(782,961)**	(1,659,236)
Investing activities			
Repayment of restricted cash		345,655	-
Purchase of proprietary database		-	(32,854)
Purchase of property, plant and equipment		(265,916)	(398,788)
Cash used in investing activities		**79,739**	(431,642)
Financing activities			
Shares issued (net of share issuance cost)		-	1,737,794
Working capital facility		-	(398,573)
Cash provided by financing activities		**-**	1,339,221
Net decrease in cash and cash equivalents		**(703,222)**	(751,657)
Effect of exchange rate changes on cash		(33,968)	61,666
Cash and equivalents, beginning of the period		431,976	1,121,967
Cash and equivalents, end of the period	4	**(305,214)**	431,976

Supplemental cash-flow disclosures			
Changes in accounts payable related to exploration & evaluation assets		-	120,178
Changes in accounts payable related to property, plant & equipment		-	20,559

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2.

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

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

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

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

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

Going Concern

While these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the year ended 31 December 2016, the Company reported a Net Loss of $5,225,884 (2015: $5,910,543) and a cash outflow from operating activities of $782,961 (2015: $1,659,236) and as at that date, the Company had working capital of $226,866 (2015: $2,944,931). The Company also has several permit expenditure plans (Note 18) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

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.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies specific to certain balances are described within the detailed note in the sections below.

General accounting policies adhered to in these financial statements are as follows:

Basis of Preparation

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

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

Basis of Consolidation

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

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

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

Functional and presentation currency

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

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

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

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

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

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

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions.

The principal areas of judgement for the Company are found in the following notes:

Note 7 – Property, plant and equipment

Note 8 – Exploration and evaluation assets

Note 9 – Long term asset retirement obligations

Changes in accounting policies

The Company elected to switch from full cost to successful efforts method of accounting at 31 December 2016 for its investments in oil and gas exploration assets. Under full cost method, all costs directly associated with the development of oil and gas reserves were capitalized. The successful efforts method is an alternative method of accounting for exploration and evaluation costs in the oil and gas industry. Under the successful efforts method, all general exploration and evaluation costs are expensed as incurred, except the direct costs of acquiring the right to explore, drilling exploratory wells and evaluating the results of drilling. Only the costs of successful exploration wells are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

The Company believes, with its increased focus on development and production activities, the successful efforts method of accounting provides greater transparency of costs in any period in which exploration activities are undertaken [or subsequently the realisation of assets post any discovery]. As a result, the Company believes the change in accounting method was appropriate.

The change in accounting policy requires prior period financial statements be restated to reflect the results and balances that would have been reported had the Company been following the successful efforts method of accounting from its inception. The cumulative effect of the change in accounting method since inception is set out in the tables below:

	Year ended 31 December 2015	**Year ended 31 December 2014**
	$	**$**
Increase in exploration and evaluation costs expensed	57,091	-
Decrease in impairment	(4,205,287)	-
Decrease in loss for the year	(4,148,196)	-
Decrease in exploration and evaluation asset	-	(4,193,565)
Decrease in foreign currency translation reserve	358,175	403,544
Increase/(Decrease) in accumulated deficit	(358,175)	3,790,021
Decrease in loss per share	0.02	-

Adoption of New or Revised IFRSs

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

Future IFRS Not Yet Effective

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

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 Company has yet to determine the impact this standard will have on the financial statements. The Company is not expected to early adopt this standard.

IFRS 16 Leases
IFRS 16 *Leases* ("IFRS 16") is effective for annual reporting periods beginning on or after 1 January 2019. The Company has yet to determine the impact this standard will have on the financial statements. The Company is not expected to early adopt this standard.

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 Company's financial statements and therefore have not been discussed.

3. JOINT ARRANGEMENTS

The consolidated financial statements include the Company's share of the assets, liabilities and cash flows of the joint arrangements, as they are accounted for as joint operations. The Company combines its share of the joint arrangements' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's financial statements. Income taxes are recorded based on the Company's share of the joint arrangement's activities.

The Company accounts for the following joint arrangements.

Company	Principal activity	Location	Interest
TWN Limited Partnership	Operate the Waihapa Production Station	New Zealand	50%
Tariki Joint Arrangement	Operate the Tariki license	New Zealand	50%
Waihapa-Ngaere Joint Arrangement	Operate the Waihapa and Ngaere licenses	New Zealand	50%
Alton Joint Arrangement*	Explore the Alton permit	New Zealand	65%

***** As operator, the Company relinquished the Alton exploration permit (NZEC 65%, L&M 35%) in 2016. The permit work programme required the drilling of an exploration well by 22 November 2016. The Company had no carrying value attributed to the Alton Permit exploration and evaluation expenditure at the time of the relinquishment.

4. CASH AND CASH EQUIVALENTS, AND REVOLVING CREDIT FACILITY

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

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, giving the Company the ability to draw down up to NZD500,000. The interest rate at 31 December 2016 was 5.82%. 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 Management, NZEC Tariki Limited and NZEC Waihapa Limited guaranteeing the obligations of TVL under the facility.

	2016 $	2015 $
Cash and cash equivalents	57,969	431,976
Revolving credit facility	(363,183)	-
	(305,214)	431,976

5. ACCOUNTS AND OTHER RECEIVABLES

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

	2016 $	2015 $
Trade receivables	645,090	424,215
GST receivable	7,878	5,505
Other receivables	155,898	292,424
	808,866	722,144

6. INVENTORIES

Material and supply inventories consist of wellheads, and tubulars purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value. The costs of purchase of material and supply inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to their acquisition. Non-current inventories are not expected to be utilised within 1 year.

Oil inventories, as well as any unused purchased oil and condensate, are valued at the lower of the cost and net realizable value. Cost is composed of operating expenses that have been incurred in bringing inventories to their present location and condition, and the portion of depletion expense associated with oil and condensate production. The cost of inventories is

determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

	2016 $	2015 $
Material and supplies	218,493	2,313,456
Oil inventories	538,103	277,292
	756,596	2,590,748
Non-current material and supplies	**1,868,416**	-

7. PROPERTY, PLANT AND EQUIPMENT

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

Property, plant and equipment are depreciated over the estimated useful life of the assets using the straight -line method at the following rates per annum:

Furniture and fixtures	Computer equipment	40%
Furniture and fixtures		8.5% - 10.5%
Plant and equipment	TWN Assets	5%
Plant and equipment		8.5%
Land and building	Leasehold improvements	7%

Oil and gas properties

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

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

Impairment

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

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

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

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Cost					
Balance, 31 December 2014	497,351	1,376,642	7,921,872	25,636,770	35,432,635
Additions	10,788	-	41,298	276,321	328,407
Disposals and transfers	(95,529)	-	(7,425)	-	(102,954)
Impairment	-	-	-	(1,674,100)	(1,674,100)
Change in asset retirement cost due to change in estimate	-	-	897,436	549,936	1,447,372
Foreign currency translation adjustment	11,873	69,266	442,376	1,227,411	1,750,926
Balance, 31 December 2015	424,483	1,445,908	9,295,557	26,016,338	37,182,286
Additions	-	-	180,857	155,743	336,600
Impairment	-	-	(1,447,454)	(1,508,403)	(2,955,857)
Change in asset retirement cost due to change in estimate	-	-	250,236	423,623	673,859
Foreign currency translation adjustment	(4,433)	(17,202)	(123,009)	(299,275)	(444,619)
Balance, 31 December 2016	**420,050**	**1,428,706**	**8,156,187**	**24,787,326**	**34,792,269**

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Accumulated depreciation					
Balance, 31 December 2014	244,749	-	418,357	10,882,147	11,545,253
Depreciation and depletion	44,386	-	369,908	1,088,616	1,502,910
Disposals	(95,529)	-	(7,425)	-	(102,954)
Foreign currency translation adjustment	3,862	-	42,324	607,210	653,396
Balance, 31 December 2015	197,468	-	823,164	12,577,973	13,598,605
Depreciation and depletion	27,130	-	493,557	1,435,754	1,956,441
Foreign currency translation adjustment	(1,780)	-	(2,751)	(118,433)	(122,964)
Balance, 31 December 2016	**222,818**	**-**	**1,313,970**	**13,895,294**	**15,432,082**
Net Book Value					
Balance, 31 December 2015	227,015	1,445,908	8,472,393	13,438,365	23,583,681
Balance, 31 December 2016	**197,232**	**1,428,706**	**6,842,217**	**10,892,032**	**19,360,187**

At 31 December 2016, the Company assessed and concluded the carrying value of the TWN Assets CGU (TWN Licences & Waihapa Production station) exceeded value in use resulting in an impairment of $2.956 million (2015: Copper Moki $1.67 million). The impairment was the result of lower than anticipated use of Waihapa Production Station assets particularly the LPG Plant. The value in use was calculated using a discounted cash flow with the following key (level 3) inputs: recoverable reserve forecasts based on the externally prepared reserves report, a discount rate of 12.5% (2015: 20%), a pre-tax discount rate of 14.5% for Copper Moki, 12.9% for TWN Assets, the external reserve engineer forecasts as at 31 December 2016, a forecast period over the expected life of the asset, and estimated usage of Waihapa Production Station services. The recoverable amount of the Copper Moki CGU is approximately $6.1 million (2015: $6.1 million) and the TWN Assets $11.8 million (2015: $14.4 million).

The recoverable amount of PP&E is sensitive to the discount rate, forecast future commodity prices and overall plant usage. If the discount rate applied to forecasted net cash flows increased by 5 percent, the Company would have recognized additional impairment of approximately $2.7 million in the TWN Assets only. A 5 percent reduction in forecast commodity prices would result in additional impairment of approximately $1.2 million in the TWN Assets only.

Key estimates and assumptions

Oil and gas reserve determination
The process of estimating reserves (using independent reserves engineers) requires significant estimates based on available geological, geophysical, engineering and economic data. The estimate of the economically recoverable oil and natural gas reserves and related future net cash flows incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs. Future development costs are estimated using assumptions as to the number of wells required to produce the reserves, the cost of such wells and associated production facilities, and other capital costs.

Determination of cash-generating units ("CGUs")
Oil and gas properties, resources properties and other corporate assets are aggregated into CGUs based on their ability to generate largely independent cash flows, and are used for impairment testing. CGUs are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks, and materiality, and are subject to management's judgement. The Company has two identified CGU's, Copper Moki, and TWN licences and WPS.

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

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

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

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

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

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

8. EXPLORATION AND EVALUATION ASSETS

The Company uses the successful efforts method of accounting for oil and gas exploration costs. All general exploration and evaluation costs are expensed as incurred except the direct costs of acquiring the rights to explore, drilling exploratory wells and evaluating the results of drilling. These direct costs are capitalised as exploration and evaluation assets pending the determination of the success of the well. If a well does not result in a successful discovery, the previously capitalised costs are immediately expensed.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest the carrying amount exceeds the recoverable amount. Exploration and evaluation assets can be allocated to CGUs or groups of CGUs for the purposes of assessing such assets for impairment. At 31 December 2016 exploration and evaluation assets were nil and therefore not allocated to CGUs.

Key estimates and assumptions

Assessment of the recoverability of capitalised exploration and evaluation expenditure requires certain estimates and assumptions to be made as to future events and circumstances, particularly in relation to whether economic quantities of reserves have been discovered. Such estimates and assumptions may change as new information becomes available. If it is concluded the carrying value of an exploration and evaluation asset is unlikely to be recovered by future development or sale, the relevant amount will be expensed in the statement of comprehensive loss.

9. LONG TERM ASSET RETIREMENT OBLIGATIONS

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

Changes in the liability for an asset retirement obligation due to the passage of time are measured by the present value of the amount of future expenditure. The amount is recognized in the statement of comprehensive loss as an increase in the liability and accretion expense.

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

The Company's asset retirement obligations are estimated based on the costs to abandon and reclaim its wells in certain licences and permits, and restoration obligations associated with the land at the Waihapa Production Station together with the estimated timing of the costs to be paid in future periods.

	2016 $	2015 $
Opening Balance 1 January	11,006,673	7,902,421
Change in estimate	(338,447)	1,914,001
Accretion expense for the year	312,623	273,029
Reclassified as non-current	-	386,222
Foreign currency translation adjustment	(131,420)	531,000
Closing Balance 31 December	**10,849,429**	11,006,673
Assumptions		
Total undiscounted value of payments	$17,814,791	$20,230,760
Discount rate	2.27% to 3.36%	2.6% to 3.55%
Inflation rate	2%	2%
Expected life	2 to 20 years	2 to 23 years

Key estimates and assumptions

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

10. SHARE CAPITAL

a) Common shares

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

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

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

Details of issuances of common shares:

On 23 March 2015, the Company completed a non-brokered private placement issuing 44,250,000 common shares at a price of $0.04 per share, for net proceeds of $1,737,794. Geoservices Limited ("Geoservices") subscribed for 29,000,000 shares under the private placement and, upon completion of the private placement, Geoservices owns or controls 46,000,000 common shares or approximately 19.82% of NZEC's total issued and outstanding common shares, and 17,000,000 common share purchase warrants. A resolution passed by vote of the disinterested shareholders of the Company granted approval at the AGM on 16 June 2015, for Geoservices to become a new Control Person of the Company.

The purchase of the securities by Geoservices was made for investment purposes. Subject to TSX-V rules, Geoservices may increase or decrease its investment in NZEC depending on market conditions or any other relevant factors.

b) Share purchase options

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

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

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

Pursuant to the Company's share option plan, non-transferable options to purchase common shares must not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 31 December 2016. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

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

Options activity	**2016**		**2015**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding at 1 January	12,386,825	0.13	7,917,200	0.54
Granted	-	-	10,000,000	0.05
Expired	(102,625)	0.45	(4,433,000)	0.61
Forfeited	-	-	(1,097,375)	0.45
Total Outstanding 31 December	**12,284,200**	**0.12**	**12,386,825**	**0.13**

Options outstanding and exercisable		**2016**		**2015**	
	Exercise price $	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
Options outstanding	0.05	10,000,000	3.50	10,000,000	4.50
Options outstanding	0.45	2,284,200	1.77	2,386,825	2.71
Total options outstanding		12,284,200	3.18	12,386,825	4.16
Options exercisable	0.05	-	-	-	-
Options exercisable	0.45	2,284,200	1.77	1,971,825	2.58
Total options exercisable		2,284,200	1.77	1,971,825	2.58

Options expense and assumptions	**2016**	**2015**
Expense	$51,099	$(7,513)
Black-Scholes option pricing model assumptions for new options granted:		
Risk-free interest rate	N/A*	0.70%
Expected volatility	N/A*	69.67%
Expected life	N/A*	4.6 years
Expected dividend yield	N/A*	Nil%

*No new options granted in 2016.

Key estimates and assumptions

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

c) Warrants

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

The fair value of warrants is measured as for options as discussed above.

Warrants activity	**2016**		**2015**	
	Number of warrants	**Weighted average exercise price $**	**Number of warrants**	**Weighted average exercise price $**
Outstanding at 1 January	41,452,178	0.29	41,452,178	0.29
Total Outstanding 31 December	41,452,178	0.29	41,452,178	0.29

Warrants outstanding and exercisable		**2016**		**2015**	
	Exercise price $	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
Warrants outstanding and exercisable	0.07	17,000,000	1.96	17,000,000	2.96
Warrants outstanding and exercisable	0.45	24,452,178	1.83	24,452,178	2.83
Total outstanding and exercisable		41,452,178	1.88	41,452,178	2.88

11. REVENUE

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

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

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

	Note	2016 $	2015 $
Oil sales		3,195,196	2,714,584
Gas sales		436,143	327,159
Processing revenue		2,091,165	2,054,883
Other revenue		149,114	40,883
Royalties		(180,691)	(199,991)
		5,690,927	4,937,518
Purchased light oil sold	a)	175,680	-
		5,866,607	4,937,518

a) 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.

12. PRODUCTION COSTS

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

13. GENERAL AND ADMINISTRATIVE EXPENSES

	2016 $	2015 $
Professional fees	158,166	202,659
Consulting fees	102,729	395,837
Travel and promotion	31,567	108,259
Administrative expenses	344,418	426,559
Rent	148,038	167,274
Filing and transfer agent fees	16,143	61,234
Insurance	189,602	384,359
Salary and wages	3,133,425	2,783,284
	4,124,088	4,529,465

14. INCOME TAXES

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

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

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

A reconciliation of the income tax benefit determined by applying the Canadian income tax rates to the consolidated loss for the years ended 31 December 2016 and 2015 has been prepared as follows:

	2016	**2015***
	$	**$**
Loss before income taxes	5,225,884	5,910,543
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(1,358,729)	(1,536,741)
Permanent difference – Share based compensation	-	(14,207)
Effect of tax rates in other jurisdictions	(104,028)	(110,112)
Effect of changes in foreign exchange rates	65,363	(274,871)
Change in unrecognized tax assets	(409,661)	1,934,730
Adjustment to return	1,806,034	-
Other	1,021	1,201
	-	-

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2.

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

	2016	**2015**
	$	**$**
Deferred income tax assets		
Employee benefits	116,773	99,723
Non-capital losses available for future periods	27,353,136	26,339,574
Environmental liabilities	3,037,840	3,081,868
Share issue costs	69,496	351,040
Resources property	2,029,771	4,099,780
	32,607,016	33,971,985
Unrecognized deferred tax assets	(32,359,253)	(32,768,913)
Deferred tax assets	247,763	1,203,072
Deferred income tax liability		
Inventory	(106,840)	(107,225)
Property, plant and equipment	(140,923)	(1,098,874)
Net investment in subsidiaries	-	3,027
	(247,763)	(1,203,072)
Net deferred income tax asset	-	-

*Comparative numbers have been restated due to a voluntary change in accounting policy. Refer note 2.

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2015: 26%) and a New Zealand tax rate of 28% (2015: 28%). These tax benefits have not been recognized in the consolidated financial statements as the benefits are unlikely to be realized in the foreseeable future.

The Company has operating losses available in Canada to reduce future taxable income of $17,072,239, which will expire between 2030 and 2036. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$95,840,603.

15. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

The key management personnel include the directors and other officers of the Company. Transactions have occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Key management compensation consists of the following:

	2016 $	2015 $
Salary and consulting fees	1,457,656	1,479,543
Share based compensation	50,854	(8,150)
	1,508,510	1,471,393
Included in the above amounts are:		
Upstream Consulting Ltd (James Willis)	73,878	168,477
Arenig Energy Ltd (David Llewellyn)	7,789	15,633
Michael Adams Reservoir Engineering Ltd (Michael Adams)	520,089	225,709

Greymouth Petroleum Limited

Greymouth Petroleum Limited became a related party on 23 March 2015 with directors in common. Transactions have occurred in the normal course of operations and are at values established on an arm's length basis. Transactions and balances (revenue to the Company in nature) since that date comprise:

	2016 $	2015 $
Processing revenue	371,376	423,322
Oil & Gas properties expenditure	48	46,299
Accounts receivable	31,606	37,795

Tiger Drilling Ltd

Tiger Drilling Limited became a related party on 23 March 2015 with directors in common. Transactions have occurred in the normal course of operations and are at values established on an arm's length basis. Transactions and balances (expenses to the Company in nature) since that date comprise:

	2016 $	2015 $
Production Costs	103,766	6,445
Accounts payable	9,485	-

GMP Environmental Ltd

GMP Environmental Ltd became a related party on 23 March 2015 with directors in common. Transactions have occurred in the normal course of operations and are at values established on an arm's length basis. Transactions and balances (expenses to the Company in nature) since that date comprise:

	2016 $	2015 $
Production Costs	121,929	-
Accounts payable	89,046	-

16. SEGMENTED DISCLOSURES

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

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

17. COMMITMENTS

As at 31 December 2016, the Company had the following undiscounted contractual obligations:

	2017	2018 to 2019	2020 and onwards	Total
	$	$	$	$
Operating lease obligations	91,000	27,000		118,000
Contract and purchase commitments	243,000	361,000	402,000	1,006,000
	334,000	**388,000**	**402,000**	**1,124,000**

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 Bank of New Zealand (NZD375,000), secured by way of general security agreement over the present and after acquired assets of Taranaki Ventures Limited (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.

18. PERMIT EXPENDITURE PLANS

The Company undertakes oil and gas production, development and exploration activities and has plans to complete certain exploration activities. Certain permits and licences held by the Company require various work obligations to be performed in order to maintain the permits or licences in good standing. The Company and, where relevant, its co-venturers in a permit, may apply to alter the exploration programs, request extensions, reject development costs, relinquish certain permits or farm out an interest in permits. The permit expenditure plans include those required to maintain its permits in good standing during the current permit term, prior to the Company committing to the next stage of the permit term, where additional expenditure would be required.

Maintaining the permits in good standing during the permit term is based on the fulfilment of the work program and is not based on a specific expenditure level. The anticipated cost of the works planned are set out below and relate to the following permits/licences (in the Taranaki Basin):

Permit/Licence	Note	Type	2017	2018 to 2019	2020 and onwards	Total
			$	$	$	$
Eltham Permit	1	Exploration	-	3,716,000	-	3,716,000
Tariki Licence	2	Producing	-	213,000	1,076,000	1,289,000
Waihapa Ngaere Licence	3	Producing	-	400,000	190,000	590,000
			-	**4,329,000**	**1,266,000**	**5,595,000**

1) Eltham: 2018 - drill an exploration well.
2) Tariki: 2018 - update geological models and install a jet pump (if economically viable); 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.
3) Waihapa and Ngaere: 2019 - implement enhanced oil recovery project.

19. FINANCIAL INSTRUMENTS BY CATEGORY

Loans and Receivables	**2016**	**2015**
	$	**$**
Financial assets as per balance sheet	858,957	1,148,615
Financial liabilities as per balance sheet	1,611,062	1,126,358

Financial assets

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

Loans and receivables are included in cash and cash equivalents, restricted cash and accounts receivable in the consolidated balance sheet. All financial assets are classified as level 2 per the fair value hierarchy levels.

Financial liabilities

Accounts payable, accrued liabilities and operating line of credit are classified as other financial liabilities and are initially recognized at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of comprehensive loss over the period to maturity using the effective interest method. All financial liabilities are classified as level 2 per the fair value hierarchy levels.

Impairment of financial assets

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

Objective evidence of impairment may include the following:

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

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

20. CAPITAL RISK MANAGEMENT

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

21. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

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

All of the Company's production is sold directly to a major oil company. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition. Trade receivables reported in the Company's balance sheet are aged at or under 30 days and are exposed to the risk of provisional pricing adjustment due to near-term price movements of oil.

The carrying value of the Company's cash and cash equivalents, trade receivables and restricted cash represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at 31 December 2016.

Liquidity Risk

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

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

At 31 December 2016, the Company had ($363,183) in a revolving credit facility (2015: nil), and $57,969 in cash and cash equivalents (2015: $431,976) and $226,866 in working capital (2015: $2,944,931). As disclosed in Note 18, the Company has various ongoing permit expenditure plans which are associated with the Company's interest in its exploration and evaluation assets. To the extent the Company elects not to carry out the permit expenditure plans pertaining to a specific permit, the Company stands to forfeit its interest in the relevant permit.

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

The following are the expected maturities of financial liabilities and obligations at 31 December 2016:

	Less than 1 year	**2 to 5 years**	**Thereafter**	**Total**
	$	**$**	**$**	**$**
Accounts payable and accrued liabilities	1,247,879	-	-	1,247,879
Revolving credit facility	363,183	-	-	363,183

Foreign Exchange Risk

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

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

Interest Rate Risk

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

The Company did not have any interest rate swaps or financial contracts with variable interest rates in place during the period ended 31 December 2016 and any variations in interest rates would not have materially affected net income.

Price Risk

The Company is exposed to price movements as part of its operations in relation to the prices received for its oil production. Such prices may also affect the value of resources properties and the level of spending for future activities. Prices received by the Company for its production are largely beyond the Company's control as petroleum prices are impacted by numerous factors, including, but not limited to, industrial and retail demand, levels of worldwide production, short-term changes in supply and demand related to speculative activities, forward sales by producers and speculators, and other factors. The Company's oil

production is priced based on an agreed contract price marker based on spot prices, exposing the Company to the risk of price movements. The Company has not entered into any hedge instruments and because oil sales are derived from spot prices, the impact of price risk on the Company's financial instruments is minimal.

Fair Value

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

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

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

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

22. SUBSEQUENT EVENTS

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. 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.

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

Copper Moki-1: 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.

Copper Moki-1 Water Flood: 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.

Copper Moki-2: 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.

<u>*Purchased light oil sold:</u> 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.

<u>**Royalty</u>: 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

<u>*Three Month Period*</u>*:* 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.*

<u>*Year Ended*</u>*:* 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.

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