Consolidated Financial Statements

Year Ended 31 December 2017

(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 to make estimates and assumptions and use judgment. When alternate accounting methods exist, management has chosen those it deems most appropriate in the circumstances.

PricewaterhouseCoopers, an independent firm of Chartered 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

30 April 2018

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, which comprise the consolidated balance sheets as at 31 December 2017 and 31 December 2016 and the consolidated statement of changes in equity, consolidated statement of comprehensive loss and consolidated statement 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, 113-119 The Terrace, PO Box 243, Wellington 6140, New Zealand
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of New Zealand Energy Corp. and its subsidiaries as at 31 December 2017 and 31 December 2016 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 to the financial statements which indicates that the Company's ability to continue as a going concern is dependent upon its ability to expand the financial capacity of the Company. This condition, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern and therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

(signed) "PricewaterhouseCoopers"

Chartered Accountants Wellington, New Zealand
30 April 2018

CONSOLIDATED BALANCE SHEET
As at 31 December 2017 and 2016
(Expressed in Canadian Dollars)

	Notes	2017 $	2016 $
Assets			
Current			
Cash	4	55,351	57,969
Accounts and other receivables	5	2,057,649	808,866
Prepaid expenses		126,057	214,497
Inventories	6	700,392	756,596
Total current assets		**2,939,449**	1,837,928
Non-Current			
Accounts and other receivables	5	863,123	-
Inventories	6	788,048	1,868,416
Property, plant and equipment	7	16,567,342	19,360,187
Total non-current assets		**18,218,513**	21,228,603
Total assets		**21,157,962**	23,066,531
Liabilities			
Current			
Revolving credit facility	4	331,968	363,183
Accounts payable and accrued liabilities	10	2,598,792	1,247,879
Total current liabilities		**2,930,760**	1,611,062
Non-Current			
Asset retirement obligations	9	11,628,588	10,849,429
Accounts payable and accrued liabilities	10	863,123	-
		12,491,711	10,849,429
Total liabilities		**15,422,471**	12,460,491
Shareholders' equity			
Share capital	11	109,738,706	109,738,706
Foreign currency translation reserve		12,052,627	12,435,010
Share based payments reserve		22,614,682	22,566,048
Accumulated deficit		(138,670,524)	(134,133,724)
Total shareholders' equity		**5,735,491**	10,606,040
Total liabilities and shareholders' equity		**21,157,962**	23,066,531

Description of business and going concern (Note 1)

These consolidated financial statements are authorized for issuance by the Board of Directors on 30 April 2018.

On behalf of the Board of Directors

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
As at 31 December 2017 and 2016
(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 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	11(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**
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
Share based compensation	11(b)	-	-	48,634	-	-	-	48,634
Net loss for the period		-	-	-	-	-	(4,536,800)	(4,536,800)
Other comprehensive income for the period		-	-	-	-	(382,383)	-	(382,383)
Balance, 31 December 2017		**232,123,459**	**109,738,706**	**21,265,393**	**1,349,289**	**12,052,627**	**(138,670,524)**	**5,735,491**

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
For the years ended 31 December 2017 and 2016
(Expressed in Canadian Dollars)

	Notes	2017 $	2016 $
Revenues			
Revenue	12	5,937,685	5,690,927
Other income	12	2,740,592	175,680
		8,678,277	5,866,607
Expenses and other items			
Production costs	13	1,333,487	1,347,696
Purchased oil	12	2,579,330	175,680
Processing costs		1,071,152	908,172
Exploration and evaluation costs expensed		-	-
Depreciation and depletion	7	1,299,230	2,043,583
Impairment of plant and equipment, oil and gas properties	7	1,591,776	2,955,857
Share-based compensation	11(b)	48,634	51,099
General and administrative	14	3,768,717	4,124,088
Finance expense		413,858	317,644
Foreign exchange loss		13,106	24,759
Inventory write-down	6	1,020,773	156,220
Loss on disposal of assets		37,719	-
Abandonment provision movement		37,295	(1,012,307)
		13,215,077	11,092,491
Net loss		**(4,536,800)**	(5,225,884)
Other comprehensive income/(loss):			
Exchange difference on translation of foreign currency (i)		(382,383)	(287,316)
Total comprehensive loss		**(4,919,183)**	(5,513,200)
Basic and diluted loss per share		$ (0.020)	$ (0.023)
Weighted average shares outstanding		232,123,459	232,123,459

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2017 and 2016
(Expressed in Canadian Dollars)

	Notes	2017 $	2016 $
Operating activities			
Net loss for the period		(4,536,800)	(5,225,884)
Changes for non-cash operating items			
Share-based compensation		48,634	51,099
Depreciation, depletion and accretion		1,626,558	2,356,206
Abandonment provision movement		37,295	(1,012,307)
Foreign exchange loss		13,106	15,736
Inventory write-down		1,020,773	156,220
Loss on disposal of assets		37,719	-
Impairment		1,591,776	2,955,857
Change in non-cash working capital items			
Accounts and other receivables		(2,223,917)	(93,573)
Prepaid expenses		80,316	106,365
Inventories		18,012	(220,145)
Accounts payable and accrued liabilities		2,353,327	127,465
Cash provided by (used in) operating activities		**66,799**	(782,961)
Investing activities			
Repayment of restricted cash		-	345,655
Purchase of property, plant and equipment		(40,030)	(265,916)
Cash provided by (used in) investing activities		**(40,030)**	79,739
Financing activities			
Revolving credit facility		(31,215)	363,183
Cash provided by (used in) financing activities		**(31,215)**	363,183
Net increase (decrease) in cash		**(4,446)**	(340,039)
Effect of exchange rate changes on cash		1,828	(33,968)
Cash, beginning of the period		57,969	431,976
Cash, end of the period	4	**55,351**	57,969

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 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 14 Connett Road, New Plymouth, New Zealand 4312.

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, material uncertainty exists related to certain conditions that may cast significant doubt on the validity of this assumption. For the year ended 31 December 2017, the Group reported a Net Loss of $4,536,800 (2016: $5,225,884) and a cash inflow from operating activities of $66,800 (2016: $(782,961)) and as at that date, the Group had working capital of $8,689 (2016: $226,866). The Group also has several permit expenditure plans (Note 19) which are associated with the Group's interest in its oil and gas properties and exploration and evaluation assets.

The Group continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production (production has increased to >200b/d since March 2018), credit facilities, commercial arrangements or other financing alternatives.

The Group's ability to continue as a going concern is reliant upon its ability to retain financing facilities that are currently in place and generate budgeted cash flows from operations which are reliant on achieving planned production levels and forecast oil prices, all of which are uncertain.

These consolidated financial statements do not reflect adjustments to the carrying values of the assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used that would be necessary if the Group 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 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 1 – Going concern

Note 6 - Inventories

Note 7 – Property, plant and equipment

Note 9 – Long term asset retirement obligations

Adoption of New or Revised IFRSs

There have been no new or 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 has assessed the impact of applying the new standard on the consolidated financial statements and has not identified any material differences from its current reporting.

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 made a preliminary assessment of the impact of applying the new standard on the consolidated financial statements and has not identified any material differences from its current revenue recognition practice. This assessment has not yet been subject to a full audit.

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 consolidated 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%

4. CASH, 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 NZ$500,000. The interest rate at 31 December 2017 was 5.94% (2016: 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.

	2017	**2016**
	$	**$**
Cash and cash equivalents	55,351	57,969
Revolving credit facility	(331,968)	(363,183)

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.

		2017 $	2016 $
Trade receivables		889,697	645,090
GST receivable		9,500	7,878
Financial receivable from related party	16	1,012,699	-
Other receivables		145,753	155,898
		2,057,649	808,866
Non-Current Financial receivable from related party	16	**863,123**	-

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 (NRV). 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.

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

	2017 $	2016 $
Material and supplies	209,060	218,493
Oil inventories	491,332	538,103
	700,392	**756,596**
Non-current material and supplies	1,808,821	2,024,636
Less write down provision to NRV	(1,020,773)	(156,220)
	788,048	**1,868,416**

Write downs of inventories to net realizable value of $1,020,773 (2016: $156,220), and inventory expensed during the period of $59,595 (2016: nil), were recognized as an expense during the year ended 31 December 2017 in the Consolidated Statement of Comprehensive Loss.

Key estimates and assumptions

The key estimates and assumptions in determining net realizable value for non-current materials and supplies include the following:

a) Each individual item within material and supplies was assessed for its likelihood to be used by the Company in its future work program, as detailed in Note 19. For those items considered unlikely to be used, they were then assessed for resale potential. For those items considered unlikely to be saleable, they were then valued at scrap value.
b) Scrap value has been estimated at 25% of original cost based on the current market pricing of scrapped tubulars.
c) Saleable value has been estimated at 50% of original cost based on the selling price of some items sold post balance date.

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 Cash Generating Unit (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 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)	(299,975)	(444,619)
Balance, 31 December 2016	420,050	1,428,706	8,156,187	24,787,326	34,792,269
Additions	-	-	62,724	-	62,724
Disposals	(78,471)	-	-	-	(78,471)
Impairment	-	-	(350,297)	(1,241,479)	(1,591,776)
Change in asset retirement cost due to change in estimate	-	-	695,332	337,566	1,032,898
Foreign currency translation adjustment	(10,255)	(71,702)	(424,603)	(1,217,581)	(1,724,141)
Balance, 31 December 2017	**331,324**	**1,357,004**	**8,139,343**	**22,665,832**	**32,493,503**

	Furniture and fixture	Land and building	Plant and equipment	Oil and gas properties	Total
	$	$	$	$	$
Accumulated depreciation					
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
Depreciation and depletion	18,774	-	501,364	804,479	1,324,617
Disposals	(16,030)	-	-	-	(16,030)
Foreign currency translation adjustment	(10,755)	-	(81,496)	(722,257)	(814,508)
Balance, 31 December 2017	**214,807**	**-**	**1,733,838**	**13,977,516**	**15,926,161**
Net Book Value					
Balance, 31 December 2016	197,232	1,428,706	6,842,217	10,892,032	19,360,187
Balance, 31 December 2017	**116,517**	**1,357,004**	**6,405,505**	**8,688,316**	**16,567,342**

At 31 December 2017, the Company assessed and concluded the carrying value of the Copper Moki CGU exceeded fair value in use resulting in an impairment of $1,241,479 (2016: TWN CGU $2,955,857). The impairment was the result of lower than anticipated reserve estimates. The value in use was calculated using a discounted cash flow with the following key (level 3) inputs: recoverable reserve forecasts based on the external reserve engineer forecasts as at 31 December 2017; a discount rate of 12.5% (2016: 12.5%); a pre-tax discount rate of 14.4% for Copper Moki, 12.9% for TWN Assets; 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 $3.0 million (2016: $6.1 million) and the TWN Assets $12.6 million (2016: $11.8 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 $0.2 million in the Copper Moki Assets only. A 5 percent reduction in forecast commodity prices would result in additional impairment of approximately $0.5 million in the Copper Moki 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 CGUs;

a) Copper Moki, and
b) Tariki, Waihapa and Ngaere licences and Waihapa Production Station (TWN Assets).

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 2017 exploration and evaluation assets were nil and therefore not allocated to CGUs.

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 recognized in the statement of comprehensive loss as an accretion expense, and an increase in the liability in the balance sheet.

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.

	2017	**2016**
	$	**$**
Opening Balance 1 January	10,849,429	11,006,673
Change in estimate	1,066,407	(338,447)
Accretion expense for the year	301,942	312,623
Reclassified as non-current	-	-
Foreign currency translation adjustment	(589,190)	(131,420)
Closing Balance 31 December	**11,628,588**	10,849,429
Assumptions		
Total undiscounted value of payments	$17,171,927	$17,814,791
Discount rate	1.8% to 2.76%	2.27% to 3.36%
Inflation rate	2%	2%
Expected life	1 to 20 years	2 to 20 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. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	2017 $	2016 $
Trade payables		1,064,358	717,582
GST payable		119,413	103,769
Financial payables	16	1,012,699	-
Accrued liabilities - payroll		402,322	426,528
Total Accounts payable and accrued liabilities		2,598,792	1,247,879
Non-current financial payable	16	**863,123**	-

11. 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.

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 2017. 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.

Options activity	**2017**		**2016**	
	Number of options	**Weighted average exercise price $**	**Number of options**	**Weighted average exercise price $**
Outstanding at 1 January	12,284,200	0.12	12,386,825	0.13
Granted	-	-	-	-
Expired	(1,469,000)	0.45	(102,625)	0.45
Forfeited	-	-	-	-
Total Outstanding 31 December	**10,815,200**	**0.08**	**12,284,200**	**0.12**

Options outstanding and exercisable		**2017**		**2016**	
	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	2.50	10,000,000	3.50
Options outstanding	0.45	815,200	1.16	2,284,200	1.77
Total options outstanding		10,815,200	2.40	12,284,200	3.18
Options exercisable	0.05	-	-	-	-
Options exercisable	0.45	815,200	1.16	2,284,200	1.77
Total options exercisable		815,200	1.16	2,284,200	1.77

Options expense and assumptions	**2017**	**2016**
Expense	$48,634	$51,099
Black-Scholes option pricing model assumptions for new options granted:		
Risk-free interest rate	N/A*	N/A*
Expected volatility	N/A*	N/A*
Expected life	N/A*	N/A*
Expected dividend yield	N/A*	N/A*

*No new options granted in 2017 or 2016.

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	**2017**		**2016**	
	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		**2017**		**2016**	
	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	0.96	17,000,000	1.96
Warrants outstanding and exercisable	0.45	24,452,178	0.83	24,452,178	1.83
Total outstanding and exercisable		41,452,178	0.88	41,452,178	1.88

12. 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 sale of 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 sale of 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 Group.

	Note	**2017 $**	**2016 $**
Oil sales		3,174,677	3,195,196
Gas sales		148,460	436,143
Processing revenue		2,461,946	2,091,165
Interest revenue		93,716	-
Other revenue		304,101	149,114
Royalties		(245,215)	(180,691)
		5,937,685	5,690,927
Purchased oil sold	a)	2,579,330	175,680
Other income		161,262	-
		2,740,592	175,680

a) The Company has an arrangement with a third party whereby the Company purchases oil, charges a processing fee and subsequently sells the oil. Any unsold oil is carried as inventory.

13. 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.

14. GENERAL AND ADMINISTRATIVE EXPENSES

	2017 $	2016 $
Professional fees	167,799	158,166
Consulting fees	76,015	102,729
Travel and promotion	34,718	31,567
Administrative expenses	373,619	344,418
Rent	111,975	148,038
Filing and transfer agent fees	27,407	16,143
Insurance	188,976	189,602
Salary and wages	2,788,208	3,133,425
	3,768,717	4,124,088

15. 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 in the foreseeable future 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 2017 and 2016 has been prepared as follows:

	2017 $	2016 $
Loss before income taxes	4,536,800	5,225,884
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(1,179,568)	(1,358,729)
Effect of tax rates in other jurisdictions	(88,995)	(104,028)
Effect of changes in foreign exchange rates	107,067	65,363
Change in unrecognized tax assets	(315,239)	(409,661)
Adjustment to return	42,737	1,806,034
Tax on royalty agreement transaction (See Note 16 (i))	903,070	-
Other	530,928	1,021
	-	-

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

	2017 $	2016 $
Deferred income tax assets		
Employee benefits	112,649	116,773
Non-capital losses available for future periods	29,085,463	27,353,136
Environmental liabilities	3,256,005	3,037,840
Share issue costs	4,000	69,496
Resources property	769,773	2,029,771
	33,227,890	32,607,016
Unrecognized deferred tax assets	(32,044,015)	(32,359,253)
Deferred tax assets	1,183,875	247,763
Deferred income tax liability		
Inventory	(52,056)	(106,840)
Property, plant and equipment	(1,131,819)	(140,923)
Net investment in subsidiaries	-	-
	(1,183,875)	(247,763)
Net deferred income tax asset	-	-

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2016: 26%) and a New Zealand tax rate of 28% (2016: 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 $17,401,720, which will expire between 2030 and 2037. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$102,844,426.

16. RELATED PARTY TRANSACTIONS

Entities associated with the Company include: Greymouth Petroleum Limited, Tiger Drilling Ltd, GMP Environmental Ltd, and Greymouth Gas Taranaki Ltd. Each of these entities is related to the Company due to having directors in common. Transactions have occurred in the normal course of operations. The following transactions and balances with these related parties are:

	Note	2017 $	2016 $
Processing revenue		361,472	371,376
Production costs		207,456	225,695
Trade receivables		32,582	31,606
Trade payables		122,813	98,531
Oil & Gas properties expenditure		-	48
Total settlement for royalty discharge	i)	3,275,895	-
Current financial receivable	i)	1,012,699	-
Non-current financial receivable	i)	863,123	-

i) 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 (Note 10) and receipt from the related party (Note 5) is spread over 2 years, with future payments and receipts secured by back to back bank guarantees.

Key Management and Personnel Compensation

The key management personnel include the directors and other officers of the Company. Key management compensation consists of the following:

	Twelve months ended 31 December	
	2017	**2016**
	$	**$**
Salary and consulting fees	1,011,712	1,457,656
Share based compensation	48,634	50,854
	1,060,346	1,508,510
Included in the above amounts are:		
Upstream Consulting Ltd (James Willis)	33,175	73,878
Arenig Energy Ltd (David Llewellyn)	-	7,789
Michael Adams Reservoir Engineering Ltd (Michael Adams)	434,290	520,089

17. 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.

18. COMMITMENTS

As at 31 December 2017, the Company had the following undiscounted contractual obligations:

	2018	**2019 to 2020**	**2021 and onwards**	**Total**
	$	**$**	**$**	**$**
Operating lease obligations	36,133	9,884	-	46,017
Contract and purchase commitments	267,525	279,900	243,079	790,504
	303,658	**289,784**	**243,079**	**836,521**

Bank Guarantees

Bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences are secured by bank guarantees provided by Bank of New Zealand (NZD375,000).

Taranaki Ventures Ltd (TVL), a subsidiary of the Company, has bank guarantees in place to ensure its performance in paying its future obligations of: Financial Payable due 30 March 2018, NZD1,100,000, and Financial Payable due 29 March 2019, NZD1,000,000 (Note 10).

These bank guarantees are 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.

19. PERMIT EXPENDITURE PLANS

The Group undertakes oil and gas production, development and exploration activities and has plans to complete certain exploration activities. Certain permits and licences held by the Group require various work obligations to be performed in order to maintain the permits or licences in good standing. The Group 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	2018	2019 to 2020	2021 and onwards	Total
			$	$	$	$
Eltham Permit	i	Exploration	3,432,000	-	-	3,432,000
Tariki Licence	ii	Producing	22,000	52,000	969,000	1,043,000
Waihapa Ngaere Licence	iii	Producing	-	562,000	32,000	594,000
			3,454,000	**614,000**	**1,001,000**	**5,069,000**

i. Eltham: 2018 - drill an exploration well. Note -Subsequent to year end, an Appraisal Extension Application has been lodged (with the regulatory authority) with a modified Work Program and over a reduced area of PEP 51150.
ii. Tariki: 2018 -2020 - update geological models; 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.
iii. Waihapa Ngaere: 2019 - implement enhanced oil recovery project.

20. FINANCIAL INSTRUMENTS BY CATEGORY

Loans and Receivables	2017	2016
	$	$
Financial assets as per balance sheet	2,966,623	858,957
Financial liabilities as per balance sheet	3,674,471	1,611,062

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.

The fair values of all financial assets are considered to be the same as their carrying amounts. For current receivables, this is due to their short-term nature, and for non-current financial assets, they have been discounted as described above.

Loans and receivables are included in 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.

The fair values of all financial liabilities are considered to be the same as their carrying amounts. For current payables, this is due to their short-term nature, and for non-current financial liabilities, they have been discounted as described above.

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 asset 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.

21. CAPITAL RISK MANAGEMENT

The Company's capital includes share capital, shares subscribed, 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.

22. 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 consist of cash deposits that are 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. Financial receivable from related party is secured by a bank guarantee.

The carrying value of the Company's cash, and trade receivables represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at 31 December 2017.

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 2017, the Company had ($331,968) in a revolving credit facility (2016: ($363,183)), and $55,351 in cash (2016: $57,969) and $8,689 in working capital (2016: $226,866). As disclosed in Note 19, 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 2017:

	Less than 1 year	2 to 5 years	Thereafter	Total
	$	$	$	$
Accounts payable and accrued liabilities	2,479,380	863,123	-	3,342,503
Revolving credit facility	331,968	-	-	331,968

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.

The sensitivity of profit or loss to changes in the USD/NZD exchange rate of an increase in the rate by 10% is a loss of $288,607 (2016: $290,472), and a decrease in the rate of 10% is a gain of $352,742 (2016: $355,022).

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 2017 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.

23. SUBSEQUENT EVENTS

There have been no subsequent events.

Management's Discussion and Analysis

Year Ended 31 December 2017

(Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") is dated 30 April 2018, for the year ended 31 December 2017. It should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2017 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 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") – see Recent Developments.

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:** Achieved over 2 years Harm Free until a first aid treatment case was reported on 5 May 2017. There have been no harm cases reported since then.

2. **Waihapa-Ngaere Production:** The average rate for the fourth quarter was 64 boe per day (73% oil). This was an increase from the 46 boe per day NZEC share (84% oil) in the third quarter as the production wells recovered from the planned, and some unplanned, compressor down time in July and early August. Oil production has stabilised at increased rates, as expected, into Q1-18.

3. **TWN Enhanced Oil Recovery Project (Stages 1, 2 and 3):** The project is successfully reducing reservoir pressure and at voidage rates of 5000 to 7000 bfpd or more the natural aquifer effects are negated. Stage 2 was completed in Q1-17 with continuous gas-lift being implemented in two additional wells bringing the total number of wells on continuous production to four. The increase in water and gas throughput generated by this necessitated gas processing modifications and upgrades (Stage 3) prior to bringing further production volumes on line. This work was completed late in 2017 and planning for Stage 4, a high rate ESP installation, is underway with the activity scheduled for mid-2018 (see Recent Developments).

4. **TWN Waihapa Production Station:** Upgrades to the gas processing system to restore full gas dehydration and measurement have been completed. Arrangements to enable sales of non-specification gas to third parties, beyond blending within the production system, are being finalised with the relevant infrastructure operators.

5. **Copper Moki:** Production from Copper Moki-1 was constrained for the fourth quarter, with pump related mechanical issues resulting in the well being shut in from 14 November (see Recent Developments). Production prior to shut-in

had been stable at ~40bopd, which was higher than before water injection commenced (~26bopd) in late 2015. The Copper Moki-1 well water cut become significant in February 2017 and some decline in oil rates was seen through the first half of 2017. The stable production through the third and fourth quarters was largely the result of the removal of production system back-pressure at the Copper Moki site in early July 2017. Copper Moki-2 currently produces with no significant decline in oil rate through the last 9 months and with no significant water. The average rate from the Copper Moki wells for the fourth quarter was 41 boe per day all NZEC share (100% oil); and for the full year was 64 boe per day (94% oil).

6. **Production:** Production for the fourth quarter was 9,660 boe (84% oil) (with an average 105 boe per day); and for the year 46,982 boe (87% oil) (with an average 129 boe per day).

7. **Sales (oil):** Oil sales for the quarter of 9,466 bbl realised $704,678 (with an average oil sale price of $74.45 per bbl); and for the year 48,814 bbl realised $3,174,677 (with an average oil sale price of $65.04 per bbl).

8. **Processing revenue:** Increased third party processing volumes were achieved in 2017. The TWN Assets generated $622,444 from processing fees for the last quarter, and $2,461,946 for the year, with a number of third-party customers accessing a range of services including site operations, oil processing and handling, pipeline throughput services, gas processing, LPG storage and handling, and produced water disposal. Ahuroa Gas Storage related contracts were renewed on substantially the same terms as previously.

9. **Operating Cost Reductions**: The Company has implemented a series of changes and achieved a reduction of ~$1 million in annualised cash operating costs. This included moving the New Plymouth Operations office to smaller and less expensive premises closer to oil service companies and pipe yards in May 2017.

10. **Royalty Transfer Transaction**: In March, an Overriding Royalty (Royalty Agreement) was acquired from a third party which contained an obligation due by a related party. Concurrently it was 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 was immediately cash positive for NZEC by the amount of the gain under the arrangement of NZ$154,000 (after transaction costs).

11. **Annual General Meeting (AGM):** The Company held its AGM on 27 July 2017 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. In addition, PricewaterhouseCoopers (New Zealand) were appointed auditors.

2018 OUTLOOK

Key objectives for the year include:

1. Refreshing our Safety Culture in order to maintain our 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 Waihapa-Ngaere Enhanced Oil Recovery Project. This will include installation of an ESP in one well in central Waihapa-Ngaere during 2018;

3. Optimising the management of the Copper Moki waterflood and extending the waterflood area where commercially viable;

4. Identifying opportunities within the Company assets for low cost developments. This includes opportunities within the producing Waihapa, Ngaere and Copper Moki assets as well as those in the Tariki licence that are accessible from existing wells.

RECENT DEVELOPMENTS

1. **Copper Moki-1:** In mid-November 2017 Copper Moki-1 experienced pump related mechanical issues resulting in the well being shut in pending a pump replacement. A rig-based workover was completed in mid-February 2018, with subsequent production results above expectation. By the end of February Copper Moki-1 was producing at ~100 bopd and 115 bwpd. In early March some pump-jack servicing was carried out and the stroke rate was increased by 15%. The result was a further increase in production volumes and through the balance of March 2018 Copper Moki-1 produced at an average of 160 bopd and with a decreasing water cut.

2. **Waihapa/Ngaere:** The joint venture has approved in principle moving to implement Stage 4 of the enhanced oil project, with the installation of an ESP in the Ngaere-1 well being progressed for mid-2018. This activity will predominantly use equipment that is in inventory or available to be deployed from elsewhere in the operated assets. The objective of Stage 4 is to increase the fluid volume being produced from Waihapa-Ngaere and accelerate the pressure depletion and hence oil production.

3. **Eltham PEP 51150:** An Appraisal Extension Application has been lodged with a modified Work Program and over a reduced area of PEP 51150. The application area includes the 2012 Arakamu- 2 discovery well, which produced oil from the Miocene Mt. Messenger Formation when tested in Q1 2013. The Appraisal Extension is being assessed by the regulatory authority, New Zealand Petroleum and Minerals.

FINANCIAL SNAPSHOT

	Three months ended 31 December 2017	*Year ended 31 December 2017*	*Year ended 31 December 2016*	*Year ended 31 December 2015*
	bbl	***bbl***	***bbl***	***bbl***
Production	8,078	40,724	62,767	42,012
Sales	9,466	48,814	60,871	44,856
	$/bbl	***$/bbl***	***$/bbl***	***$/bbl***
Price	74.45	65.04	52.49	60.52
Production costs	40.39	27.32	22.14	28.11
Royalties	7.33	5.02	2.97	4.46
Field netback	26.74	32.70	27.38	27.95
	$	**$**	**$**	**$**
Revenue	2,553,907	8,678,277	5,866,607	4,937,518
Total comprehensive loss	(3,053,491)	(4,919,183)	(5,513,200)	*(5,240,854)
Net finance expense	(168,689)	(413,858)	(317,644)	(268,936)
Loss per share – basic and diluted	(0.013)	(0.020)	*(0.027)	(0.023)
Current Assets		2,939,449	1,837,928	4,071,289
Total Assets		21,157,962	23,066,531	28,200,578
Total long-term liabilities		12,491,711	10,849,429	11,006,673
Total liabilities		15,422,471	12,460,491	12,133,031
Shareholders' equity		5,735,491	10,606,040	16,067,547

Note: The abbreviation bbl means barrel of oil.

*Note: Restated for Change in Accounting Policy. See details provided in the *2016 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 2017.

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 767,000 barrels of oil (1,039,000 barrels of oil equivalent, including associated gas[1]) with an after tax net present value discounted at 10% (at 31 December 2017) of $13.2 million.

Technical revisions reduced ~213,000 bbl of oil reserves in 2017. After producing ~41,000 bbl of oil, the net reduction in remaining oil reserves at 31 December 2017 was ~254,000 bbl. Excluding production:

1. **Copper Moki** – reduced oil reserves largely attributable to declines observed through 2017 in Copper Moki-1 (considered attributable to pump deterioration - see Recent Developments) and Copper Moki-2; and

2. **Waihapa/Ngaere** – reduced oil reserves attributable to general decline (see Recent Developments regarding the intention to move to Stage-4 of the enhanced oil project).

See the Company's *Form 51-101F1 Statement of Reserves Data* dated 30 April 2018 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 2017						
	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	186.7	164.0	743.3	642.7	310.6	271.1
Developed Non-Producing	202.5	178.9	318.4	277.0	255.6	225.0
Undeveloped	129.3	111.2	116.3	100.2	148.6	127.9
Total Proved	**518.4**	**454.1**	**1,178.1**	**1,019.9**	**714.8**	**624.1**
Probable	248.2	217.5	455.4	395.7	324.1	283.4
Total Proved and Probable	**766.6**	**671.6**	**1,633.5**	**1,415.6**	**1,038.9**	**907.5**

(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 Beach 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 Beach 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 2017						
	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	-462.4	214.9	489.8	627.9	702.0	1.81
Developed Non-Producing	9,634.8	6,131.6	4,319.4	3,276.2	2,606.8	19.19
Undeveloped	5,078.3	3,566.9	2,570.3	1,904.8	1,445.5	20.10
Total Proved	**14,250.7**	**9,913.4**	**7,379.4**	**5,808.8**	**4,754.3**	**11.82**
Probable	14,405.4	8,530.7	5,790.7	4,232.2	3,232.7	20.43
Total Proved Plus Probable	**28,656.2**	**18,444.1**	**13,170.1**	**10,041.0**	**7,987.0**	**14.51**

(1) Net present value of future net revenue to NZEC after deduction of royalty obligations payable to the New Zealand Government and Beach 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 enhanced oil recovery project being implemented mobilizes stranded oil by reducing reservoir pressure and increasing pressure differentials on lesser quality reservoir. Recent measurements confirm this is being achieved through direct reservoir pressure measurements and increases in oil rates from wells when total fluid rates are maintained at, or above, 6000 bfpd.

Stage-1 was implemented in H2-16 with a high fluid rate gas-lift valve system in Waihapa-6 (late July 2016). Stage 2 was completed in Q1-17 with continuous gas-lift being implemented in two additional wells bringing the total number of wells on continuous production to four. The increase in water and gas throughput generated by this necessitated gas processing modifications and upgrades (Stage 3) prior to bringing further production volumes on line. This work was completed late in 2017 and planning for an additional high fluid rate well (Stage 4) is progressing according to schedule. The objective of this stage is to double the total fluid production to 14,000 bbls per day of fluid. A subsequent Stage 5 is envisaged to enable further oil production optimisation within the plant maximum capacity limit of 18,000 bbls per day of fluid, and would likely include a further ESP.

See also *Permit Expenditure Plans* below.

Copper Moki Petroleum Mining Permit

Copper Moki-1: The Copper Moki pool waterflood implemented in late 2015 has been successful in increasing oil rates and in maintaining oil production rates at more than 40 bbls per day through 2016 and 2017. Water production commenced in February 2017 and some decline in oil rates was seen through the first half of 2017, which was largely mitigated in net oil rate terms by removal of production system back-pressure at the Copper Moki site in early July 2017. Hence oil rates through the latter half of 2017 were close to what they were in Q4-16 (i.e. > 40 bbls per day), albeit with water cuts up from less than 1% in 2016 to 54% in November 2017.

In mid-November 2017, Copper Moki-1 experienced pump related mechanical issues resulting in the well being shut in pending a pump replacement. The first attempt at replacement of the pump (using a crane) in late November 2017 was unsuccessful. A rig-based workover was completed in mid-February 2018 (see Recent Developments).

Copper Moki-2: Copper Moki-2 oil production declined relatively slowly through 2017 (from ~28 bopd in January to ~22 bopd by December 2018). Throughout this time, the water production has remained stable and typically at less than 2 stb/d.

Eltham Petroleum Exploration Permit

The Company has completed assessing its appraisal and exploration opportunities portfolio in the Eltham PEP and has applied for an Appraisal Extension over a greatly reduced area (898 acres or 3.6km^2) of PEP 51150. The application area includes the 2012 Arakamu- 2 discovery well, which produced oil from the Miocene Mt. Messenger Formation when tested in Q1-13.

The previous flow testing at Arakamu-2 was hampered by sand production and the low reservoir gas content and hence there remains significant uncertainty about the nature of the petroleum deposit. Further evaluation and testing will reduce this uncertainty and allow the Operator to determine the commerciality of this resource.

The Appraisal Extension is being assessed by the regulatory authority New Zealand Petroleum and Minerals.

TWN Midstream Assets

Services are provided to Contact Energy in relation to operation of the Ahuroa Gas Storage facility and these contracts were renewed in mid-2017 on substantially the same terms. In late 2017 Contact Energy announced the sale of the Ahuroa Gas Storage facility to Gas Services New Zealand Limited with a notional completion date of 30 June 2018. NZEC anticipate remaining in place as operator of the Ahuroa facility post completion of the sale.

In addition, other parties are accessing services for oil processing, handling and pipeline throughput, gas processing and transport, and handling and disposal of produced water. The increased third-party processing volumes and revenues seen in the nine-months to September were sustained to year end.

SUMMARY OF QUARTERLY RESULTS

	2017 Q4 $	2017 Q3 $	2017 Q2 $	2017 Q1 $
Total assets	21,157,962	23,908,933	25,476,119	24,358,299
Exploration and evaluation assets	-	-	-	-
Property, plant and equipment	16,567,342	18,095,034	19,677,449	18,890,865
Working capital	8,689	70,478	(1,961)	138,203
Revenues	2,553,907	2,074,599	2,143,077	1,906,695
Accumulated deficit	(138,670,524)	(135,597,393)	(135,277,017)	(134,714,568)
Total comprehensive income (loss)	(3,053,491)	(849,855)	(87,814)	(928,023)
Basic (loss) earnings per share	(0.013)	(0.001)	(0.002)	(0.003)
Diluted (loss) earnings per share	(0.013)	(0.001)	(0.002)	(0.003)

	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	-	-	-	-
Property, plant and equipment	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)

*Note: Restated for Change in Accounting Policy. See details provided in *2016 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 2017

This section of the MD&A provides analysis of the Company's operations in respect of the fourth quarter of 2017 ("Three Month Period") and the full year ("Year Ended" or "Twelve Month Period") compared to results achieved for the same periods in 2016. See *Operating & Financial Highlights* and *Property Review and Outlook* for a summary of the fourth quarter and full year 2017 operational events and activities.

Production and sales

	Three Month Period ended 31 December		Year ended 31 December	
Barrels or BOE	**2017**	**2016**	**2017**	**2016**
Production - Oil	8,078	14,750	40,724	62,767
Sales - Oil	9,466	14,609	48,814	60,871
Sales – Gas (BOE)	1,583	2,049	6,258	17,245
TOTAL Production (BOE)	9,660	16,799	46,982	80,012

The production decrease results principally from the performance of the Copper Moki-2 well, and in Q4-17 the shut in of Copper Moki-1 from mid-November 2017 due to pump related mechanical issues. Production during the same periods in 2016 exceeded expectations following installation of the new pump in December 2015.

Revenues

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Oil Sales	704,678	884,008	3,174,677	3,195,196
Gas Sales	40,822	(114,875)	148,460	436,143
Processing Revenue	622,444	544,972	2,461,946	2,091,165
Other Revenue	67,541	49,822	304,101	149,114
Purchased oil sold*	932,789	175,680	2,579,330	175,680
Royalty**	(69,346)	(62,983)	(245,215)	(180,691)
Oil sales per bbl	74.45	60.51	65.04	52.49

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 negative due to a year to date reclassification of costs between Gas sales and Production costs. Excluding this reclassification, the sales for the quarter would have been $50,170. For the Year ended sales reduced in line with the drop in oil production.

Processing Revenue – the increase reflects higher third-party processing volumes.

Other Revenue - the increase in the three-month period is due to consulting work done by the Company's staff for another company's abandonment program at the Ahuroa site. For the Year ended the consulting work contributed to the increase together with the Royalty Transfer Transaction (see #10 Highlights).

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

**Royalty: Royalties paid are based on an ad valorem Crown royalty of 5% at Copper Moki and 10% (less allowable costs) for the TWN Licences. In addition, for the TWN Licences, there is a 9% overriding royalty payable to Beach 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	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Production costs	382,266	105,793	1,333,487	1,347,697
Production cost per bbl	40.39	7.24	27.32	22.14

Three Month Period: Production costs were lower in 2016 due to a year to date reclassification of costs between Production Costs and Gas Sales. Excluding the reclassification, the costs would have been $270,838. Oil inventory value changes* increased costs by ~$70,000 (2016: reduction ~$70,000). If the changes due to the reclassification are accounted for and oil valuation excluded, the comparable underlying production costs would have been $312,660 (2016: $342,295) and the production cost per barrel would be $33.03 (2016: $23.43).

Excluding the changes above, underlying Production costs reduced compared to 2016 due to variable operating costs following decreased production ($30,000).

Oil inventory value changes. In Q4-17 lower oil inventory volumes (sales being greater than production) resulted in a reduction in oil inventory value, hence an increase in production cost. In Q4-16 higher oil prices resulted in an increase in oil inventory value, hence a reduction in production cost.

Year Ended: Oil inventory value changes* increased full year costs by ~$90,000 (2016: reduction ~$195,000). If the changes for the oil valuation are excluded, the comparable underlying production costs would have been $1,243,104 (2016: $1,543,414) and the production cost per barrel would be $25.47 (2016: $25.36).

Excluding the changes above, the underlying Production costs reduced compared to 2016 due to variable operating costs following reduced production ($300,000), and was reflected in the consistent production cost per barrel.

Processing costs

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Processing costs	194,198	195,413	1,071,152	908,172

The 2017 costs are higher due to the variable costs associated with the processing of purchased oil.

Depreciation and depletion

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Depreciation and depletion	313,696	513,136	1,299,230	2,043,583

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 decrease in 2017 principally reflects the lower levels of production.

Impairment

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Impairment PPE	1,591,776	2,955,857	1,591,776	2,955,857

Impairment – PP&E: The impairment in 2017 reflects the write-down of the Copper Moki permit as a result of reduced oil reserves largely attributable to declines observed through 2017 in Copper Moki-1 (considered attributable to pump deterioration - see Recent Developments) and Copper Moki-2 ($1,241,479). Several items of plant have also been impaired as they are no longer of use to the Company ($350,296) (2016: TWN Asset reduction associated with the utilisation of plant and related infrastructure). See further breakdown in *Consolidated Financial Statements - Note 7, Property Plant and Equipment*.

Share Based Compensation

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Share Based Compensation	12,158	12,386	48,634	51,099

The 2017 and 2016 expense reflects the fair market value attributed to options issued in November 2015. See also further detail in *Consolidated Financial Statements - Note 11b Share Purchase Options.*

General and Administrative Expenses

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
General and administrative expense	835,478	984,118	3,768,717	4,124,088

The reduced costs recorded for the Twelve-Month and Three-Month Period compared to 2016 reflect the ongoing focus on cost reductions. Of note are the reductions in Consulting fees, Rent, and Salary and Wages. See further breakdown in *Consolidated Financial Statements - Note 14, General and Administrative Expenses*.

Finance Expense

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Accretion	70,604	101,786	301,941	313,390
Interest on Revolving Credit Facility	4,369	3,179	18,201	4,254
Interest on Financial Payables	93,716	-	93,716	-
Total Finance expense	168,689	104,965	413,858	317,644

Accretion expense is associated with asset retirement obligations and is lower in both the Three and Twelve-Month Periods compared to 2016, due to a reduction in the discount rates. See *Consolidated Financial Statements - Note 9, Long Term Asset Retirement Obligations,* for more information. The interest on the Revolving Credit Facility is higher in 2017 as the facility was in place for the full twelve months, compared to only the latter months of 2016. Interest on Financial Payables has been recognised using the effective interest method. There were no Financial Payables in 2016.

Abandonment Provision movement

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Abandonment provision movement	14,368	(1,387,342)	37,295	(1,012,307)

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	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Exchange Difference – gain / (loss)	19,640	(139,310)	(382,383)	(287,316)
Exchange rate at beginning of period	0.8978	0.9516	0.9385	0.9498
Exchange rate at end of period	0.8914	0.9385	0.8914	0.9385

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

The NZD weakened against the CAD over all periods except Q4-17 resulting in translation losses.

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	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
TWN Assets	231	4,946	62,724	269,838
Copper Moki	-	(2,860)	-	66,761
Other	-	-		
TOTAL	**231**	**2,086**	**62,724**	**336,600**

In the TWN Assets, the 2017 spend relates to a glycol dehydration unit refurbishment and a replacement export gas moisture analyser; while the 2016 spend relates to the oil plant inspection and certification and Waihapa-1B jet pump installation.

In Copper Moki, 2016 expenditure relates to Copper Moki-2 workover and water flood.

COMMITMENTS

See details provided in *Consolidated Financial Statements - Note 18, Commitments*.

PERMIT EXPENDITURE PLANS

See details provided in *Consolidated Financial Statements - Note 19, Permit Expenditure Plans*.

LIQUIDITY AND CAPITAL RESOURCES

	31 December 2017	31 December 2016
	$	**$**
Cash and cash equivalents	55,351	57,969
Revolving credit facility	(331,968)	(363,183)
Working capital	8,689	226,866

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 maintaining the Company's liquidity position during the year. These include increasing third party processing revenue and a continuing emphasis on cost control and reduction (e.g. General and Administrative Expenses).

The Company's ability to improve its financial capacity including its ability to retain financing facilities it currently has in place and the relative success of, and cash flow generated from, intended operations including the production achieved and the oil price obtained cannot be assured. See the *Consolidated Financial Statements - Note 1, Going Concern*.

CASH FLOW

	31 December 2017	31 December 2016
Cash provided by / (used in)	**$**	**$**
Operating activities	66,799	(782,961)
Investing activities	(40,030)	79,739
Financing activities	(31,215)	363,183

Although there was a net loss for the twelve-month period of $4,536,800 (2016: $5,225,884) cash was generated in operating activities. The more significant non-cash items included in the net loss during the period included $1,626,558 in depreciation, depletion and accretion (2016: $2,356,206), impairment of $1,591,776 (2016: $2,955,857), inventory write-down $1,020,773 (2016: $156,220), and a working capital change of $227,738 (2016: $(79,888)).

Investing activities were for the purchase of property, plant, and equipment, less $345,655 in 2016 for the release of restricted cash.

Financing activities were obtaining the revolving credit facility in 2016, and partial repayment of the facility in 2017.

RELATED PARTY TRANSACTIONS

See details provided in *Consolidated Financial Statements - Note 16, 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 2016.

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 2017 and 2016:

	Three Month Period ended 31 December		Year ended 31 December	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Net Revenue				
Oil sales	704,678	884,008	3,174,677	3,195,196
Royalties	(69,346)	(62,983)	(245,215)	(180,691)
Production Costs	(382,266)	(105,793)	(1,333,487)	(1,347,696)
Sub-total net revenue (a)	253,066	715,232	1,595,975	1,666,809
Barrels of Oil sold (b)	9,466	14,609	48,814	60,871
Field Netback [(a)/(b)] $/bbl	**26.74**	**48.96**	**32.70**	**27.38**

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at 31 December 2017, 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 10,608,000 share options, of which 608,000 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 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 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.