NEW ZEALAND ENERGY CORP.

Management's Discussion and Analysis

Year Ended 31 December 2018

(Expressed in Canadian Dollars)

This Management's Discussion and Analysis ("MD&A") is dated 16 April 2019, for the year ended 31 December 2018. It should be read in conjunction with the audited consolidated financial statements for the year ended 31 December 2018 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, 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 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 *Property Review and Outlook* for the PEP 51150 Application for Appraisal Extension status.

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 its own operated assets and 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 1-year Harm Free until a first aid treatment case was reported on 4 May 2018. There was no further harm recorded in 2018. A lost time injury – trip and fall resulting in bruising - was recorded in March 2019.

2. **Operating Cashflow:** Cash provided by operating activities was over $1.7 million (2017: $66,000), the most the Company has achieved in 8 years of existence.

3. **Copper Moki-1**: Production results since being returned to production with a new completion in February 2018 have been above expectation, peaking at close to 195 bopd in late Q1. From early October, mechanical issues with the pump rods affected production in Q4. The well was permanently repaired in late November by running a new pump and rod-string. Production for the quarter averaged ~60 bopd as a result (Q3: 105 bopd; Q2: 171 bopd). Once production was restored in late November production rates have been averaging ~100 bopd with very little associated water.

4. **Waihapa-Ngaere Production:** The average rate for the quarter was 28 boe per day (94% oil), a decrease from the 33 boe per day NZEC share (99% oil) in the third quarter. In late October the effect of produced water injection being re-directed into the producing Tikorangi Formation through Waihapa-5 was observed in the producing wells as a decrease in oil-cut. Work is underway to mitigate this response and to increase oil production from the current well stock.

5. **TWN Enhanced Oil Recovery Project:** In mid-2018 the joint venture approved the implementation of Stage 4 of the Enhanced Oil Project, i.e. the installation of an ESP in the Ngaere-1 well. Installation had been deferred due to third

party specialist contractors not being available to coincide with workover rig timing. This work was completed early in 2019. See *Recent Developments*.

6. **Production:** Production for the fourth quarter was 9,593 boe (98% oil) (with an average 104 boe per day); and for the full year 59,766 boe (93% oil) (with an average 164 boe per day).

7. **Sales (oil):** Oil sales for the quarter of 13,665 bbl realised $1,223,263 (with an average oil sale price of $89.52 per bbl); and for the full year 59,386 bbl realised $5,421,323 (with an average oil sale price of $91.29 per bbl).

8. **Processing revenue:** Increased third party processing volumes have been achieved in the full year. The TWN Assets generated $661,917 from processing fees for the quarter, and $2,701,048 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.

9. **Eltham PEP 51150:** An Appraisal Extension Application has been lodged with a modified Work Program 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 and progress continues on finalising the work program for the Appraisal Extension. Abandonment of the Wairere-1A well, which is outside the Application area, will be a requirement.

10. **Annual General Meeting (AGM):** The Company held its AGM on 8 August 2018 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 re-appointed auditors

2019 OUTLOOK

Key objectives for the year include:

1. Refreshing our Safety Culture in order to progress 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. The successful installation of an ESP in Ngaere-1 in March 2019 is being followed by a re-configuring of the water disposal strategy to improve pressure depletion in the Waihapa-Ngaere Tikorangi reservoir. Subsequent to this it is anticipated that the results from Ngaere-1 may firm up the potential for a second ESP to be installed in late 2019 or early 2020;

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 and or low risk 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, and the Eltham Appraisal extension area (pending award) and/or other commercial opportunities.

5. Exploration and appraisal opportunities within the Licences and Permits operated by the Company will be updated and re-evaluated with the objective of being able to quickly implement the best of these when the Company and/or its Joint Venture choose, possibly later in 2019 or in 2020. The opportunities to be evaluated include:
   - improved recovery in the Copper Moki area;
   - undeveloped discovered oil in the Copper Moki, Waihapa-Ngaere and Tariki permits;
   - undeveloped discovered gas in the Tariki permit and the Mangahewa Formation gas in the Waihapa and Ngaere permits; and
   - Mt Messenger exploration prospects in the Waihapa-Ngaere permit adjacent to existing infrastructure.

RECENT DEVELOPMENTS

1. **TWN Enhanced Oil Recovery Project:** The ESP in Ngaere-1 was installed during mid-March and was fully operational on 5 April 2019. While it is too early to report meaningful production results, it can be reported that the well's performance to date has been as expected.

FINANCIAL SNAPSHOT

	Three months ended 31 December 2018	Year ended 31 December 2018	Year ended 31 December 2017	Year ended 31 December 2016
	bbl	***bbl***	***bbl***	***bbl***
Production	9,432	55,710	40,724	62,767
Sales	13,665	59,386	48,814	60,871
	$/bbl	***$/bbl***	***$/bbl***	***$/bbl***
Price	89.52	91.29	65.04	52.49
Production costs	42.50	25.56	27.32	22.14
Royalties	5.13	6.10	5.02	2.97
Field netback	41.89	59.63	32.70	27.38
	$	**$**	**$**	**$**
Revenue	3,017,228	12,262,394	8,678,277	5,866,607
Total comprehensive profit/(loss)	(820,151)	(867,013)	(4,919,183)	(5,513,200)
Net finance expense	(44,206)	(365,009)	(413,858)	(317,644)
Loss per share – basic and diluted	(0.005)	(0.004)	(0.021)	(0.023)
Current Assets		4,301,390	2,939,449	1,837,928
Total Assets		19,482,944	21,157,962	23,066,531
Total long-term liabilities		11,543,073	12,491,711	10,849,429
Total liabilities		14,590,149	15,422,471	12,460,491
Shareholders' equity		4,892,795	5,735,491	10,606,040

Note: The abbreviation bbl means barrel of oil.

PROPERTY REVIEW AND OUTLOOK

This section reviews activities and developments during the reporting period in respect of the Company's assets (see map following).

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 is targeted at mobilising stranded oil by reducing reservoir pressure and thereby increasing pressure differentials on lesser quality reservoir.

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 (Ngaere-2A and 3), bringing the total number of wells on continuous production using gas-lift to four. The increase in water and gas throughput generated by this necessitated gas processing modifications and upgrades (Stage-3) prior to bringing further fluid production volumes on line. This work was completed late in 2017.

The joint venture has approved Stage-4, the installation of an ESP (Electric Submersible Pump) in the Ngaere-1 well. The workover to install the ESP was completed during mid-March 2019 and was fully operational on 5 April 2019.

On 31 July 2018 a produced water leak was identified. Production operations were not initially impacted as produced water disposal was switched to the back-up water disposal well, Waihapa-5, which injects back into the main producing Tikorangi formation reservoir. In late October the effect of using Waihapa-5 was observed on the most southern of the producing wells as a decrease in oil-cut and an overall decrease in oil production rate.

Coincident with the timing of Stage-4 has been the implementation of a water disposal strategy to mitigate the reduced voidage effects of the ESP pending the return to disposing of produced water in horizons other than the Tikorangi formation. In the interim the strategy is to utilise the Toko-2 well as the injection well (consent has been received from the regulatory authority). This well, while still in the Tikorangi formation, is located in to the northern end of the field and is at least partially isolated from Ngaere-1, with all communication being through the common aquifer. Work is ongoing to gain consent to re-purpose an existing well to enable produced water disposal in horizon(s) other than the Tikorangi formation.

See also *Permit Expenditure Plans* below.

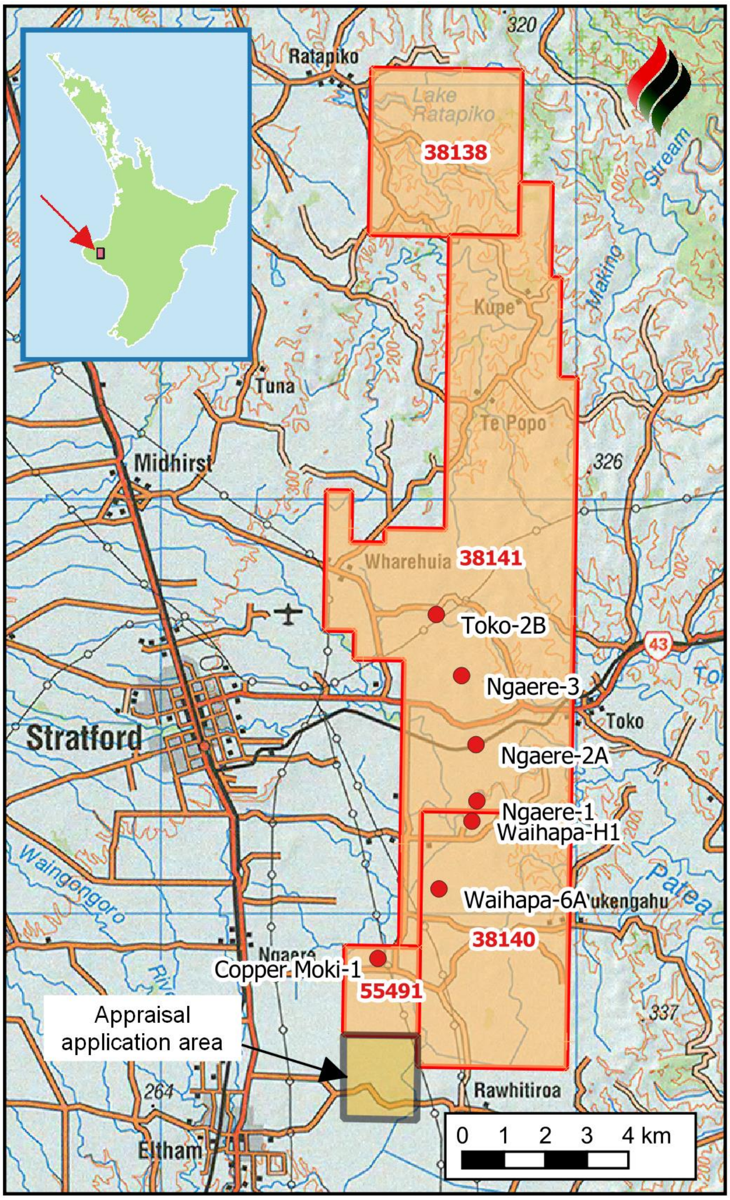
Copper Moki Petroleum Mining Permit

Copper Moki-1: From early in October, mechanical issues with the pump rods significantly affected production in Q4. The well was repaired in late November by running a new pump and rod-string inside the existing tubing. Production for the quarter averaged ~60 bopd as a result (c.f. Q3: 105 bopd; Q2: 171 bopd). Once production was restored from late November production rates have been averaging ~100 bopd and with no water.

Copper Moki-2: Since mid-July 2018 Copper Moki-2 oil production has been producing ~15–20 bopd. Water production has remained stable and typically at less than 2 stb/d.

Eltham Petroleum Exploration Permit

Having completed assessment of the exploration and appraisal opportunities portfolio in the Eltham PEP, the Company has applied for an Appraisal Extension over a 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 Moki 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 exploration permit has expired (22 September 2018) together with the related well commitment. An Appraisal Extension is being assessed by the regulatory authority New Zealand Petroleum and Minerals and a Work Program for the next term of the Appraisal Extension Area is being negotiated. Discussions regarding the area being relinquished are also near agreement. In addition, plug and abandonment of well Wairere-1A, which is outside the Application area is expected to be required in the near future.

TWN Midstream Assets

Effective 1 October the Ahuroa Gas Storage (AGS) facility has been sold (by Contact Energy) to Gas Services New Zealand (GSNZ), a third-party infrastructure owner. Since then the same operating services have continued to be provided to the new owner. NZEC has been actively involved in the ownership and management transition process and remains in place as facility operator.

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 Company continues to explore opportunities with existing and new customers.

A number of statutory inspection and maintenance activities were completed during Q3 and early Q4 2018 at WPS. This included the condensate tank inspection (in July) and the oil plant A-train and gas process regulatory integrity assessment inspections and the new bypass piping of the LPG plant installed in October. No issues were identified.

The company has remained focussed on operating costs and is committed to continuing to reduce per unit costs, increasing net-backs and gas revenues and to increase third party revenues and services. Late in Q4 we commenced some additional services for an existing customer and that will continue through 2019.

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 2018.

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 753,600 barrels of oil (990,000 barrels of oil equivalent, including associated gas) with an after tax net present value discounted at 10% (at 31 December 2018) of $15.2 million.

Technical revisions added ~43,000 bbl of oil reserves in 2018. After producing ~56,000 bbl of oil, the net reduction in remaining oil reserves at 31 December 2018 was ~13,000 bbl. Excluding production:

1. **Copper Moki** – increased oil reserves largely attributable to improved production during 2018 in Copper Moki-1 (post the new completion in February 2018) and stable Copper Moki-2 production; and

2. **Waihapa/Ngaere** – reduced oil reserves attributable to general production decline, largely attributable to produced water re-injection commencing in August 2018 (see Highlights especially TWN Enhanced Oil Recovery project).

See the Company's *Form 51-101F1 Statement of Reserves Data* dated 16 April 2019 which is filed on SEDAR for full information on the Company reserves and in particular, *Part 4 Reconciliation of Changes in Reserves*.

OIL AND GAS RESERVES SUMMARY
Forecast Pricing and Costs
As at 31 December 2018

	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	262.9	240.6	620.5	539.4	366.3	330.5
Developed Non-Producing	150.8	128.2	301.3	261.9	201.1	171.9
Undeveloped	128.1	110.3	115.3	100.2	147.3	127.0
Total Proved	**541.8**	**479.1**	**1,037.1**	**901.5**	**714.7**	**629.4**
Probable	211.8	184.3	381.2	331.4	275.3	239.5
Total Proved and Probable	**753.6**	**663.4**	**1,418.3**	**1,232.9**	**990.0**	**868.9**

(1) Mstb – Thousand barrels; MMcf – Million cubic feet; Mboe – Thousand barrels of oil equivalent using a conversion ratio of 6 Mcf:1 bbl. Barrels of oil equivalent (boe) may be misleading, particularly if used in isolation. The boe conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead
(2) Gross reserves are the Company's working interest share before the deduction of royalty obligations payable to the New Zealand Government and 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 2018						
	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	3,489.5	3,950.0	3,999.1	3,904.4	3,760.1	12.12
Developed Non-Producing	8,343.1	5,164.1	3,453.5	2,470.4	1,855.2	20.03
Undeveloped	4,691.3	3,495.3	2,659.8	2,073.0	1,649.4	20.94
Total Proved	**16,523.9**	**12,609.3**	**10,112.4**	**8,447.8**	**7,264.7**	**16.07**
Probable	12,510.6	7,497.0	5,064.8	3,679.9	2,799.4	21.15
Total Proved Plus Probable	**29,034.5**	**20,106.3**	**15,177.2**	**12,127.7**	**10,064.1**	**17.47**

(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.

SUMMARY OF QUARTERLY RESULTS

	2018 Q4 $	2018 Q3 $	2018 Q2 $	2018 Q1 $
Total assets	19,482,944	19,995,634	20,613,614	20,487,574
Exploration and evaluation assets	-	-	-	-
Property, plant and equipment	14,595,173	14,933,065	15,397,744	16,738,567
Working capital	1,254,314	1,600,803	1,246,055	(109,862)
Revenues	3,017,229	2,941,542	4,261,327	2,042,297
Accumulated deficit	(139,667,184)	(138,521,200)	(138,473,149)	(139,215,296)
Total comprehensive income (loss)	(820,151)	(246,053)	497,962	(298,771)
Basic (loss) earnings per share	(0.005)	(0.001)	0.003	(0.002)
Diluted (loss) earnings per share	(0.005)	(0.001)	0.003	(0.002)

	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)

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 2018

This section of the MD&A provides analysis of the Company's operations in respect of the fourth quarter of 2018 ("Three Month Period") and the full year ("Year Ended" or "Twelve Month Period") compared to results achieved for the same periods in 2017. See *Operating & Financial Highlights* and *Property Review and Outlook* for a summary of the fourth quarter and full year 2018 operational events and activities.

Production and sales

	Three Month Period ended 31 December		Year ended 31 December	
Barrels or BOE	**2018**	**2017**	**2018**	**2017**
Production - Oil	9,432	8,078	55,710	40,724
Sales - Oil	13,665	9,466	59,386	48,814
Sales – Gas (BOE)	162	1,583	4,056	6,258
TOTAL Production (BOE)	9,593	9,660	59,766	46,982

The higher production in 2018 arises principally from the performance of the Copper Moki-1 well, which saw an increase in production after the completion of the work-over in Q1-18. Sales also include hydrocarbon liquids recovered from processing third party product.

Revenues

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Oil Sales	1,223,263	704,678	5,421,323	3,174,677
Gas Sales	(87,765)	40,822	120,224	148,460
Processing Revenue	661,917	622,444	2,701,048	2,461,946
Other Revenue	55,273	67,541	158,997	304,101
Purchased oil sold*	1,259,890	932,789	4,159,236	2,579,330
Royalty**	(70,041)	(69,346)	(362,430)	(245,215)
Oil sales per bbl	89.52	74.45	91.29	65.04

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 6 in "Annual and Quarterly Operating Highlights"* above.

Gas sales in 2018 are lower due to reduced sales volumes available from the Waihapa/Ngaere wells. The negative sales in the Three Month period relate to credit notes issued for sales invoiced earlier in the year.

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

Other Revenue – 2017 was higher due to consulting work undertaken by Company staff for another Company's abandonment program at the Ahuroa Site.

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	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Production costs	580,756	382,266	1,517,803	1,333,487
Production cost per bbl	42.50	40.39	25.56	27.32

Three Month Period: Production costs include the impact of oil inventory value changes*. If this impact was excluded, the comparable costs would have been $366,275 (2017: $312,660), and production cost per barrel $26.80 (2017: $33.05).

Underlying production costs are higher due to higher costs associated with the Copper Moki-1 rigless rod pull that was required to repair and restore production in November.

Year Ended: Production costs include the impact of oil inventory value changes*. If this impact was excluded, the comparable costs would have been $1,543,569 (2017: $1,243,104) and production cost per barrel $25.99 (2017: $25.47).

The 2018 comparable costs are higher due to higher production volumes and costs associated with the Copper Moki-1 workovers in both February and November.

**Oil inventory value changes. Where higher oil inventory volumes occur (production being greater than sales) it results in an increase in the oil inventory value, hence a decrease in production cost.*

Processing costs

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Processing costs	403,728	194,198	1,484,289	1,071,152

The 2018 costs are higher due to variable costs associated with the processing (and lifting) of greater volumes of light oil (see Processing Revenue, and Oil Sales above). 2018 also saw two shutdowns in quarter two and quarter four for tank and pressure vessel statutory inspections, compressor overhaul, and a bypass of the LPG plant.

Depreciation and depletion

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Depreciation and depletion	90,023	313,696	1,488,768	1,299,230

Depletion on oil and gas assets is calculated using the unit-of-production method by reference to the ratio of production during the Three and Twelve Month Periods as compared to the related total proved and probable reserves of oil and natural gas, taking into account estimated future development costs necessary to access those reserves.

The increase for the Year ended 2018 principally reflects the higher levels of production. The decrease for the Three Month period was to account for a change in estimate in the calculation used earlier in the year.

Impairment

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Impairment PPE	919,317	1,591,776	919,317	1,591,776

Impairment – PP&E: The 2018 impairment is the write-down of the TWN Assets cash generating unit. The fair value in use was assessed as being below the carrying value by $919,317. This impairment is the result of lower than anticipated reserve estimates and the assessment of future processing revenues. See further breakdown in *Consolidated Financial Statements - Note 7, Property Plant and Equipment*.

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) and Copper Moki-2 ($1,241,479). Several items of plant were also impaired being of no further use to the Company ($350,296).

Share Based Compensation

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Share Based Compensation	348	12,158	24,317	48,634

The 2018 and 2017 expense reflect the fair market value attributed to options issued in November 2015. With no further options issued since 2015, no further expense has been recognised since Q2-18. 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	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
General and administrative expense	913,728	835,478	3,397,455	3,768,717

Cost reductions continue to be a focus, with reductions in most categories over the full year. Notably in salary and wages, rent and administrative expenses. The Three Month period in 2018 reflects higher costs than in 2017, for audit work associated with implementing new accounting standards and timing of board meetings. 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	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Accretion	39,503	70,604	291,646	301,941
Interest on Revolving Credit Facility	-	4,369	9,766	18,201
Interest on Financial Payables	4,703	93,716	63,597	93,716
Total Finance expense	44,206	168,689	365,009	413,858

Accretion reflects the expense associated with asset retirement obligations. See *Consolidated Financial Statements - Note 9, Long Term Asset Retirement Obligations,* for more information.

The interest on the Revolving Credit Facility has reduced in 2018 as the facility was not utilised from July 2018. In 2017 the facility was drawn down for the full twelve months.

Interest on Financial Payables has been recognised using the effective interest method. The lower cost for both the Three and Twelve Month periods reflect the reduction in the balances and the remaining term of the Financial Payable.

Abandonment Provision movement

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Abandonment provision movement	(50,373)	14,368	(80,896)	37,295

Abandonment provision movement arises from the change in estimate for abandonment on wells which have previously been fully impaired.

Exchange Difference on Translation of Foreign Currency

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Exchange Difference – gain / (loss)	325,832	19,640	129,647	(382,383)
Exchange rate at beginning of period	0.8620	0.8978	0.8914	0.9385
Exchange rate at end of period	0.9145	0.8914	0.9145	0.8914

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

The NZD exchange rate has strengthened against the CAD over both the Three Month and Year ended Periods resulting in a translation gain.

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	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
TWN Assets	30,490	231	31,187	62,724
Copper Moki	16,053	-	220,645	-
Waihapa	19,933	-	202,757	-
TOTAL	**66,476**	**231**	**454,589**	**62,724**

2018 expenditure in Waihapa relates to the spend associated with the Ngaere-1 ESP project. Copper Moki is the capital component of the Copper Moki-1 workover and TWN assets is the 4 yearly statutory inspections at the Waihapa Production Station.

In the TWN Assets, 2017 spend relates to a glycol dehydration unit refurbishment and a replacement export gas moisture analyser.

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 2018	31 December 2017
	$	**$**
Cash and cash equivalents	1,237,019	55,351
Revolving credit facility	-	(331,968)
Working capital	1,254,314	8,689

The Company has improved its financial position during the year and finished the year in a much stronger working capital (and cash) position. Several factors have contributed to improving the Company's liquidity position during the year. These include a pump change and workover in Copper Moki 1 resulting in increased production, increasing third party processing revenue and a continuing emphasis on cost control and reduction (e.g. General and Administrative Expenses).

A number of opportunities are now being actively considered (see *2019 Outlook* and *Property Review and Outlook* sections) as a result of the improvement in the Company's financial position.

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. Its ability to improve its financial capacity including its ability to maintain 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*.

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CASH FLOW

	31 December 2018	31 December 2017
Cash provided by / (used in)	**$**	**$**
Operating activities	1,750,824	66,799
Investing activities	(275,720)	(40,030)
Financing activities	(331,968)	(31,215)

Although there was a net loss for the twelve-month period of $996,660 (2017: $4,536,800) cash provided by operating activities was the most it has ever achieved. The more significant non-cash items included in the net loss during the period included $1,802,995 in depreciation, depletion and accretion (2017: $1,626,558), impairment of $919,317 (2017: $1,591,776), inventory write-down $nil (2017: $1,020,773), and a non-cash working capital change of $97,995 (2017: $227,738).

Investing activities were for the purchase of property, plant, and equipment (net of sale proceeds).

Financing activities represent repayment of the revolving credit facility.

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 audited annual consolidated financial statements for the year ended 31 December 2017, except as disclosed in the Adoption of New or Revised IFRSs (IFRS 9 "Financial Instruments" and IFRS 15 "Revenue with Contracts from Customers"). See details provided in *Consolidated Financial Statements - Note 2, Adoption of New or Revised IFRSs*.

NON-IFRS DISCLOSURES

NZEC uses certain terms for measurement within this MD&A which do not have standardized meanings prescribed by IFRS, and these measurements may differ from other companies' and accordingly may not be comparable to measures used by other companies. The term "field netback" is not a recognized measure under the applicable IFRSs. Management of the Company believes the measure is useful to provide shareholders and potential investors with additional information, in addition to profit and loss and cash flow from operating activities as defined by IFRS, for evaluating the Company's operating performance. Field netback is reconciled as follows to the Company's consolidated financial statements for the Three and Twelve Month periods ended 31 December 2018 and 2017:

	Three Month Period ended 31 December		Year ended 31 December	
	2018	**2017**	**2018**	**2017**
	$	**$**	**$**	**$**
Net Revenue				
Oil sales	1,223,263	704,678	5,421,323	3,174,677
Royalties	(70,041)	(69,346)	(362,430)	(245,215)
Production Costs	(580,756)	(382,266)	(1,517,803)	(1,333,487)
Sub-total net revenue (a)	572,466	253,066	3,541,090	1,595,975
Barrels of Oil sold (b)	13,665	9,466	59,386	48,814
Field Netback [(a)/(b)] $/bbl	**41.89**	**26.74**	**59.63**	**32.70**

SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of voting common shares. As at 31 December 2018, 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, Nil warrants and 10,242,000 share options, of which 10,242,000 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.