NEW ZEALAND ENERGY CORP.

Consolidated Financial Statements

Year Ended 31 December 2015

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

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

The Board of Directors is responsible for ensuring that 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 that management's responsibilities are properly discharged, to review the consolidated financial statements and recommend that 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"	*"Derek Gardiner"*
Michael Adams, Chief Executive Officer	Derek Gardiner, Chief Financial Officer

April 26, 2016

Independent Auditor's Report

To the Shareholders of New Zealand Energy Corp.

We have audited the accompanying consolidated financial statements of New Zealand Energy Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as at December 31, 2015 and December 31, 2014 and the consolidated statements of changes in equity, comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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

signed "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

CONSOLIDATED BALANCE SHEETS
As at 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015	2014
Assets	**2015**	**2014**
Current	**$**	**$**
Cash and cash equivalents	431,976	1,121,967
Accounts and other receivables (Note 4)	722,144	1,344,883
Prepaid expenses	326,421	377,454
Inventories (Note 5)	2,590,748	2,665,765
	4,071,289	**5,510,069**
Non -Current		
Restricted cash	356,176	339,112
Software and proprietary database	189,432	431,949
Property, plant and equipment (Note 6)	23,583,681	23,887,382
Exploration and evaluation assets (Note 7)	-	4,193,565
	28,200,578	**34,362,077**
Liabilities		
Current		
Accounts payable and accrued liabilities	1,126,358	1,908,755
Working capital facility (Note 9)	-	411,496
Asset retirement obligation	-	367,720
	1,126,358	**2,687,971**
Asset retirement obligations (Note 8)	11,006,673	7,902,421
	12,133,031	**10,590,392**
Shareholders' equity		
Share capital (Note 10)	109,738,706	108,000,912
Foreign currency translation reserve	13,080,501	12,456,181
Share based payments reserve	22,514,355	22,521,868
Accumulated deficit	(129,266,015)	(119,207,276)
	16,067,547	**23,771,685**
	28,200,578	**34,362,077**

Description of business and going concern (Note 1)
Commitments (Note 16)
Subsequent events (Note 20)

These consolidated financial statements are authorized for issuance by the Board of Directors on 26 April 2016.

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 STATEMENTS OF CHANGES IN EQUITY
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	Number of shares	Share capital $	Share based payments reserve (options) $	Share based payments reserve (warrants) $	Foreign currency translation reserve $	Accumulated deficit $	Total equity $
Balance, December 31, 2013	**170,873,459**	**107,160,526**	**20,477,624**	**1,339,675**	**7,567,066**	**(35,099,834)**	**101,445,057**
Units issued, at $0.05 (Note 10(a))	17,000,000	850,000	-	-	-	-	850,000
Warrants in units issued (Note 10(a,c))	-	(9,614)	-	9,614	-	-	-
Stock-based compensation (Note 10(b))	-	-	694,955	-	-	-	694,955
Net loss for the year	-	-	-	-	-	(84,107,442)	(84,107,442)
Other comprehensive income for the year	-	-	-	-	4,889,115	-	4,889,115
Balance, December 31, 2014	**187,873,459**	**108,000,912**	**21,172,579**	**1,349,289**	**12,456,181**	**(119,207,276)**	**23,771,685**
Balance, December 31, 2014	**187,873,459**	**108,000,912**	**21,172,579**	**1,349,289**	**12,456,181**	**(119,207,276)**	**23,771,685**
Units issued, at $0.04* (Note 10(a))	44,250,000	1,737,794	-	-	-	-	1,737,794
Warrants in units issued (Note 10(a,c))	-	-	-	-	-	-	-
Stock-based compensation (Note 10(b))	-	-	(7,513)	-	-	-	(7,513)
Net loss for the year	-	-	-	-	-	(10,058,739)	(10,058,739)
Other comprehensive income for the year	-	-	-	-	624,320	-	624,320
Balance, December 31, 2015	**232,123,459**	**109,738,706**	**21,165,066**	**1,349,289**	**13,080,501**	**(129,266,015)**	**16,067,547**

*Net of share issue costs

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015 $	2014 $
Revenues (Note 11)	4,937,518	14,125,396
Expenses and other items		
Production costs	1,260,936	2,069,256
Purchased oil and condensate (Note 11)	-	4,482,911
Processing costs	938,265	1,699,489
Depreciation	1,630,961	3,738,132
Impairment (Notes 6 and 7)	5,879,387	77,078,331
Stock-based compensation (Note 10(b))	(7,513)	544,843
General and administrative (Note 12)	4,529,465	7,149,003
Debt forgiven	-	15,536
Provision for onerous contract	-	304,607
Finance expense	268,936	283,541
Loss on disposal of assets	-	666,957
Abandonment	481,828	-
Other	13,992	200,232
	14,996,257	98,232,838
Net loss for the year	**(10,058,739)**	**(84,107,442)**
Exchange difference on translation of foreign currency (i)	624,320	4,889,115
Total comprehensive loss for the year	**(9,434,419)**	**(79,218,327)**
Basic and diluted loss per share	$ (0.05)	$ (0.49)
Weighted average shares outstanding	222,182,363	171,618,664

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

See accompanying notes to the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the years ended 31 December 2015 and 2014
(Expressed in Canadian Dollars)

	2015	2014
	$	$
Operating activities		
Net loss for the year	(10,058,739)	(84,107,442)
Changes for non cash operating items		
Stock-based compensation	(7,513)	544,843
Depreciation and accretion	1,903,990	4,053,568
Abandonment	481,828	-
Foreign exchange loss	(35,867)	15,279
Impairment	5,879,387	77,078,331
Loss on disposal	-	666,957
Change in non-cash working capital items		
Accounts and other receivables	650,943	4,804,931
Prepaid expenses	66,525	127,222
Restricted cash	-	(4,335)
Inventories	202,066	64,647
Accounts payable and accrued liabilities	(684,765)	(5,240,723)
Cash provided by (used in) operating activities	**(1,602,145)**	**(1,996,722)**
Investing activities		
Expenditures on resource properties	(56,606)	(662,391)
Term deposit	-	79,341
Purchase of proprietary database	(32,854)	(148,133)
Purchase of property and equipment	(399,273)	(3,782,012)
Proceeds from sale of assets	-	396,049
Disposal of assets held for sale	-	1,137,553
Cash used in investing activities	**(488,733)**	**(2,979,593)**
Financing activities		
Shares issued (net of share issuance cost) (Note 10(a))	1,737,794	850,000
Operating line of credit	-	-
Working capital facility (Note 9)	(398,573)	363,905
Deferred financing cost	-	(36,840)
Cash provided by financing activities	**1,339,221**	**1,177,065**
Net decrease in cash and cash equivalents during the year	**(751,657)**	**(3,799,250)**
Effect of exchange rate changes on cash	61,666	18,329
Cash and equivalents, beginning of the year	**1,121,967**	**4,902,888**
Cash and equivalents, end of the year	**431,976**	**1,121,967**
Supplemental cash flow disclosures		
Changes in accounts payable related to exploration and evaluation assets	120,178	236,190
Changes in accounts payable related to property, plant and equipment	20,559	883,245

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

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

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

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 119-125 Devon Street East, New Plymouth, New Zealand 4310.

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

Going Concern

While these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the year ended 31 December 2015, the Company reported a Net Loss of $10,058,729 and a cash outflow from operating activities of $1,602,146 and as at that date, the Company had working capital of $2,944,931. The Company also has several permit expenditure plans (Note 17) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

The directors consider the use of the going concern basis is appropriate.

The Company continues to pursue a number of options to improve its financial capacity, including cash flow from oil and gas production (production has increased to >200b/d since January 2016), credit facilities, commercial arrangements or other financing alternatives.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("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:

(Expressed in Canadian Dollars)

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.

Interests in Joint Arrangements

As at 31 December 2015, the Company owned a 65% working interest in a joint arrangement to conduct oil and gas exploration activities on the Alton Permit.

The Company also owned a 50% working interest in a joint arrangement to explore, develop and operate the Tariki, Waihapa and Ngaere petroleum mining licenses (the “TWN Licenses”) as well as the Waihapa Production Station (“TWN Assets”) held in TWN Limited Partnership (TWN LP).

The Company has determined that these joint arrangements represent joint operations (see Note 3). The consolidated financial statements include the Company’s share of the assets, liabilities and cash flows of the joint arrangements. 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.

Significant Accounting Estimates and Judgements

The preparation of the consolidated financial statements requires management to make certain estimates, judgements and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes may differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impact of such estimates is pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a) Significant accounting estimates and assumptions

The following discusses the most significant accounting estimates and assumptions that the Company has made in the preparation of the consolidated financial statements.

i) Oil and gas reserve determination

Oil and gas properties are depreciated on a unit-of-production basis at a rate calculated by reference to the proved and probable reserves and incorporating the estimated future cost to develop and extract those reserves. The process of estimating reserves (using indepenedent 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.

ii) Asset retirement obligations

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.

b) Significant judgements in applying the Company's accounting policies

i) Exploration and evaluation assets

Costs incurred to acquire rights to explore for oil and natural gas may be grouped into either exploration and evaluation, or property, plant and equipment, depending on facts and circumstances. Costs incurred in respect of properties that have been determined to have proved and probable reserves are classified as property, plant and equipment. In such circumstances, technical feasibility and commercial viability are considered to be established. Costs incurred in respect of new prospects with no nearby established development past or present and no proved or probable reserves assigned are classified as exploration and evaluation assets.

ii) 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.

iii) 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 that 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.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amounts. Such circumstances include incidents of physical damage, deterioration of commodity prices, changes in the regulatory environment, relinquishment of the right to explore, or a reduction in estimates of proved and probable reserves.

iv) Interests in other entities

As part of the Company's process in determining the classification of its interests in other entities, the Company applies judgement in interpreting these interests, such as the following:

- The determination of the level of control (joint control or significant influence) held by the Company;
- The legal structure and contractual terms of the arrangement;
- When relevant, the type of joint arrangement (i.e. joint operation or joint venture) when the arrangement has been structured through a separate vehicle; and
- When relevant, other facts and circumstances.

Joint control is considered to exist when all parties to the joint arrangement are required to reach unanimous consent over decisions about relevant business activities pertaining to the contractual agreement. A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the net assets of the arrangements. Interests in joint ventures are recognized as an investment and accounted for using the equity method.

A joint operation is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and whereby each party with joint control has rights to the assets and liabilities relating to the arrangement. Interests in joint operations are accounted for by recognizing the Company's proportionate share of assets, liabilities, revenues and expenses. Judgements of whether the Company has rights to the assets and liabilities relating to arrangements include:

- Whether the Company may be exposed to liabilities by way of guarantees provided to external parties;
- Whether hydrocarbons produced from the arrangement are for the joint benefit of the Company and its partners;
- Whether preference is given to the operations of the Company and its partners when it comes to services provided by the arrangement; and
- Whether the arrangement forms a vital part of the Company's operating assets.

Foreign Currency Translation

a) 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 that are denominated in foreign currencies are translated to the functional currency at the exchange rate prevailing at the end of each reporting period. Non-monetary assets and liabilities are measured in terms of historical cost in a foreign currency and are translated using the exchange rate at the date of the transaction.

b) Subsidiaries and joint arrangements

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 that 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.

Cash and Cash Equivalents

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 that are subject to an insignificant risk of change in value.

Restricted Cash

Represents term deposits placed with a commercial bank in New Zealand to secure bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences.

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.

Inventories

Material and supply inventories consist of wellheads, tubulars and explosives purchased for use in oil and gas operations and are valued at the lower of cost, or net realizable value. The costs of purchase of material and supply inventories comprise the purchase price, import duties and other taxes, and transport, handling and other costs directly attributable to their acquisition.

Oil inventories, as well as any unused purchased oil and condensate, are valued at the lower of the cost and net realizable value. Cost is composed of operating expenses that have been incurred in bringing inventories to their present location and condition, and the portion of depletion expense associated with oil and condensate production. The cost of inventories is determined using the weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Proprietary Database

The proprietary database is carried at cost and is amortized annually under the straight line method based on an estimated useful life of five years for seismic models and geological data.

The cost of the proprietary database consists of the purchase price and any costs directly attributable to bringing the asset to the condition necessary for its intended use.

The proprietary database is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal of the proprietary database shall be determined as the difference between the net disposal proceeds and the carrying amount of the asset, and is recognized as profit or loss within the consolidated statement of comprehensive loss.

Property, Plant and Equipment

a) 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.

b) Plant and equipment

Plant and equipment includes the TWN Assets, which are carried at cost less accumulated depreciation. Cost includes expenditures that are directly attributable to the acquisition of the items. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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. Leasehold improvements are depreciated using the straight-line method over an estimated useful life of five years.

The TWN Assets are depreciated using the straight-line method over an estimated useful life of 25 years.

c) Furniture and fixtures

Furniture and fixtures 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.

Computer equipment and furniture are depreciated over the estimated useful life of the assets using the declining balance method at the following rates per annum:

Computer equipment	30%
Furniture and fixtures	20%

Exploration and Evaluation Assets

All costs directly associated with the exploration and evaluation of oil and gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, exploration costs, geological and geophysical costs, asset retirement costs, exploration drillings, sampling and appraisals. When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to property, plant and equipment. The decision to transfer exploration and evaluation assets to property, plant and equipment is based on management's determination of an area's technical feasibility and commercial viability based on proved and probable reserves.

Exploration and evaluation assets are assessed for impairment if facts and circumstances suggest that 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.

Revenue Recognition

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

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

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

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.

Impairment of Non-Financial Assets

Assets that are subject to depreciation are reviewed for impairment at each reporting date to determine whether there is any indication that 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 the purposes of assessing impairment testing, development costs are allocated to CGUs to which the activity relates.

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

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but so that 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.

Accounts Payable and Accrued Liabilities

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the financial year, which are unpaid. Trade payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

Provisions / Restoration Provisions

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

Changes in the liability for an asset retirement obligation due to the passage of time are measured by applying the effective interest rate method. The amount is recognized in the statement of comprehensive loss as an increase in the liability and accretion expense.

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

Share Capital

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.

Share-based Payments and Warrants

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.

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 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 stock-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.

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 that 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 that substantive enactment occurs.

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

Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the earnings (loss) attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Statement of Cash Flows

Operating activities relate to the principal revenue producing activities of the entity and other activities that are not investing or financing activities.

Investing activities are those activities relating to the acquisition, holding and disposal of long-term assets and other investments not included in cash equivalents.

Financing activities are activities that result in changes in the size and composition of the contributed equity and borrowings of the entity.

Segment Reporting

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.

Financial Instruments

a) Financial assets

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

Loans and receivables are included in cash and cash equivalents, restricted cash and accounts receivable in the consolidated balance sheet.

b) 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.

c) Impairment of financial assets

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

Objective evidence of impairment may include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that 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.

Adoption of New or Revised IFRSs

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

Future IFRS Not Yet Effective

a) IFRS 9 – Financial Instruments

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

b) IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") is effective for annual reporting periods beginning on or after 1 January 2018. The Group has yet to determine the impact this standard will have on the financial statements.

c) IFRS 16 Leases

IFRS 16 *Leases* ("IFRS 16") is effective for annual reporting periods beginning on or after 1 January 2019. The Group has yet to determine the impact this standard will have on the financial statements.

(Expressed in Canadian Dollars)

All other standards, interpretations and amendments approved but not yet effective in the current year are either not applicable to the Company or are not expected to have a material impact on the Group's financial statements and therefore have not been discussed.

3. JOINT ARRANGEMENTS

On 28 October 2013, the Company obtained joint control of the exploration and development of the TWN Licenses and TWN Assets through participation in a number of joint arrangements, as outlined below. The Company accounts for these joint arrangements as joint operations.

Company	Principal activity	Location	Interest
TWN Limited Partnership	Operate the TWN Assets	New Zealand	50%
Waihapa-Ngaere Joint Arrangement	Operate the Waihapa and Ngaere licenses	New Zealand	50%
Tariki Joint Arrangement	Operate the Tariki license	New Zealand	50%

As at 31 December 2015, the Company also held an interest in the Alton permit through participation in joint arrangements. The Company accounts for this joint arrangement as a joint operation.

Company	Principal activity	Location	Interest
Alton Joint Arrangement	Explore the Alton permit	New Zealand	65%

4. ACCOUNTS AND OTHER RECEIVABLES

	2015	2014
	$	$
Trade receivables	424,215	920,640
GST Receivable	5,505	57,975
Other receivables	292,424	366,268
	722,144	**1,344,883**

5. INVENTORIES

	2015	2014
	$	$
Material and supplies	2,313,456	2,232,529
Oil inventories	277,292	433,236
	2,590,748	**2,665,765**

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture	Plant and equipment	Land and building	Oil and gas properties	Total
Cost	**$**	**$**	**$**	**$**	**$**
Balance, 31 December 2013	580,504	7,901,550	1,329,602	47,178,885	56,990,541
Additions	127,053	378,055	-	2,856,973	3,362,081
Disposals / Transfers	(217,491)	(926,875)	-	-	(1,144,366)
Impairment	-	-	-	(26,434,146)	(26,434,146)
Change in Asset retirement cost due to change in estimate	-	262,043	-	77,437	339,480
Foreign currency translation adjustment	7,285	307,099	47,040	1,957,621	2,319,045
Balance, 31 December 2014	**497,351**	**7,921,872**	**1,376,642**	**25,636,770**	**35,432,635**
Additions	10,788	41,298	-	276,321	328,407
Disposals	(95,529)	(7,425)	-	-	(102,954)
Impairment	-	-		(1,674,100)	(1,674,100)
Change in Asset retirement cost due to change in estimate	-	897,436	-	549,936	1,447,372
Foreign currency translation adjustment	11,873	442,376	69,266	1,227,411	1,750,926
Balance, 31 December 2015	**424,483**	**9,295,557**	**1,445,908**	**26,016,338**	**37,182,286**
Accumulated depreciation					
Balance, 31 December 2013	224,724	125,898	-	7,469,922	7,820,544
Depreciation and depletion	15,601	330,388	-	3,193,169	3,539,158
Transferred to assets held for sale	-	(41,571)	-	-	(41,571)
Foreign currency translation adjustment	4,424	3,642	-	219,056	227,122
Balance, 31 December 2014	**244,749**	**418,357**	**-**	**10,882,147**	**11,545,253**
Depreciation and depletion	44,386	369,908	-	1,088,616	1,502,910
Disposals	(95,529)	(7,425)	-	-	(102,954)
Foreign currency translation adjustment	3,862	42,324	-	607,210	653,396
Balance, 31 December 2015	**197,468**	**823,164**	**-**	**12,577,973**	**13,598,605**
Net book value					
Balance, 31 December 2014	**252,602**	**7,503,515**	**1,376,642**	**14,754,623**	**23,887,382**
Balance, 31 December 2015	**227,015**	**8,472,393**	**1,445,908**	**13,438,365**	**23,583,681**

At 31 December 2015, the Company assessed and concluded that the carrying value of the Copper Moki PMP CGU exceeded its fair value in use resulting in an impairment of $1.67 million (2014: Copper Moki $16.3 million and TWN Licences $10.1 million respectively). The impairment was the result of the further reduction in commodity prices and the reduction in reserve estimates relative to the prior year. The fair value was calculated using a discounted cash flow with the following key (level 3) inputs: recoverable reserve forecasts based on the externally prepared reserves report, a discount rate of 20%, and the Deloitte Price Forecast 31 December 2015. The recoverable amount of the Copper Moki CGU is approximately $6.1 million (2014: $7.9 million) and the TWN Licences $7.1 (2014: $6.9 million).

The recoverable amount of PP&E is sensitive to the discount rate and forecast future commodity prices. If the discount rate applied to forecasted net cash flows increased by 5 percent, the Company would have recognized additional impairment of approximately $2.6 million ($1.0 million to Copper Moki and $1.6 million to TWN Licences).

(Expressed in Canadian Dollars)

A 5 percent reduction in forecast commodity prices would result in additional impairment of approximately $1.4 million ($0.4 million to Copper Moki and $1.0 million to TWN Licences).

Permit Expiry: the TWN Licences due to expire in June 2016 (Waihapa & Ngaere Licences) and July 2016 (Tariki Licence). The Company has made application for renewal of these Licences (filed with NZP&M in December 2015 for the Waihapa & Ngaere Licences and January 2016 for the Tariki Licence).

7. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand $	East Coast Basin, New Zealand $	Total $
Balance, 31 December 2013	**43,466,442**	**8,033,595**	**51,500,037**
Additions	366,055	637,352	1,003,407
Recoveries	(372,309)	-	(372,309)
Asset retirement obligation recognized	(42,299)	-	(42,299)
Impairment - Eltham	(37,116,249)	-	(37,116,249)
Impairment - Alton	(4,196,922)	-	(4,196,922)
Impairment - Manaia	(535,742)	-	(535,742)
Impairment - Wairoa	-	(4,693,027)	(4,693,027)
Impairment - Castlepoint	-	(4,102,245)	(4,102,245)
Foreign currency translation adjustment	2,110,476	638,438	2,748,914
Balance, 31 December 2014	**3,679,452**	**514,113**	**4,193,565**
Additions	55,159	1,932	57,091
Impairment - East Cape	-	(508,235)	(508,235)
Impairment - Alton	(3,683,647)	-	(3,683,647)
Impairment - Eltham	(13,405)	-	(13,405)
Foreign currency translation adjustment	(37,559)	(7,810)	(45,369)
Balance, 31 December 2015	**-**	**-**	**-**

The Company's oil and gas properties are located in New Zealand and its interests in these properties are maintained pursuant to the terms of exploration permits granted by the New Zealand government. The Company is satisfied that evidence supporting the current validity of these permits is adequate and acceptable by prevailing industry practices in respect to the current stage of exploration on these properties.

On 21 May 2015 the Company relinquished its interest in the East Cape Petroleum Exploration Permit (PEP 52976). The total cost of $508,235 capitalised as exploration and evaluation assets has been written off (2014: relinquished the Manaia, Wairoa and Castlepoint Permits and wrote off exploration expenditure previously capitalised).

At 31 December 2015, the Company assessed and concluded the carrying value of the Alton Exploration and Evaluation CGU exceeded its recoverable amount resulting in an impairment of $3.7 million (2014: $4.2 million).

(Expressed in Canadian Dollars)

8. LONG TERM ASSET RETIREMENT OBLIGATIONS

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. The total undiscounted amount of cash flows required to settle the Company's asset retirement obligations is estimated at approximately $20.2 million.

The following table summarizes the Company's asset retirement obligations:

	$
Balance, 31 December 2013	**7,068,585**
Change in estimate	298,615
Accretion expense for the year	313,689
Foreign currency translation adjustment	240,812
Reclassified as current	(19,280)
Balance, 31 December 2014	**7,902,421**
Change in estimate	1,914,001
Accretion expense for the year	273,029
Foreign currency translation adjustment	531,000
Reclassified as non current	386,222
Balance, 31 December 2015	**11,006,673**

The following are the assumptions used to estimate the provision for asset retirement obligations:

	2015	**2014**
Total undiscounted value of payments	$20,230,760	$15,843,919
Discount rate	2.60% to 3.55%	3.56% to 3.67%
Expected life	1 to 23 years	1 to 25 years

9. WORKING CAPITAL FACILITY

On 24 September 2014, the Company entered into a working capital facility (the "Facility") with New Dawn Energy Ltd ("New Dawn") for up to NZ$5 million.

The total of the facility drawdown (NZ$638,457) was fully repaid in cash on 31 March 2015. All securities have been released and the Facility terminated.

10. SHARE CAPITAL

a) Details of issuances of common shares:

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

ii) On 15 December 2014, the Company completed a non-brokered private placement issuing 17,000,000 units at a price of $0.05, for gross proceeds of $850,000. Each unit consists of one common share and one common share purchase warrant (refer to Note 10(c)). Each whole warrant entitles the holder thereof to acquire one common share at a price of $0.07 per share extended until 15 December 2018 (see Note 10(c)). These securities were subject to a hold period that expired on April 16 2015.

iii) On 23 March 2015, the Company completed a non-brokered private placement issuing 44,250,000 common shares at a price of $0.04 per share, for gross proceeds of $1,770,000. The shares issued were subject to a four month and one day hold period that expired on 24 July 2015. Total costs in connection with the private placement were $32,206. Geoservices Limited ("Geoservices") subscribed for 29,000,000 shares under the private placement and, upon completion of the private placement, Geoservices owns or controls 46,000,000 common shares or approximately 19.82% of NZEC's total issued and outstanding common shares, and 17,000,000 common share purchase warrants. A resolution passed by vote of the disinterested shareholders of the Company granted approval at the

(Expressed in Canadian Dollars)

AGM on 16 June 2015, for Geoservices to become a new Control Person of the Company. The purchase of the securities by Geoservices was made for investment purposes. Subject to TSX-V rules, Geoservices may increase or decrease its investment in NZEC depending on market conditions or any other relevant factors.

b) Share purchase options

The Company has adopted a stock option plan which provides that the Board of Directors of the Company may from time to time, at their discretion, and in accordance with TSX Venture Exchange requirements, grant to its directors, officers, employees and consultants non-transferable options to purchase common shares, provided that the number of common shares reserved for issue does 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 2015. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

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

Details of the Company's share purchase option activity are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at 31 December 2013	8,874,700	1.30
Granted	4,158,000	0.45
Forfeited	(561,000)	0.45
Expired	(4,554,500)	0.67
Outstanding at 31 December 2014	7,917,200	0.54
Granted	10,000,000	0.05
Forfeited	(1,097,375)	0.45
Expired	(4,433,000)	0.61
Outstanding at 31 December 2015	**12,386,825**	**0.13**

The following table summarises information about share options outstanding and exercisable at 31 December 2015:

	Options Outstanding		Options Exercisable	
Range of exercise price	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
$0.01 to $0.99	12,386,825	4.16	1,971,825	2.58
	12,386,825	4.16	1,971,825	2.58

(Expressed in Canadian Dollars)

The following table summarises information about share options outstanding and exercisable at 31 December 2014:

	Options Outstanding		Options Exercisable	
Range of exercise price	**Number of options**	**Weighted average contractual life (years)**	**Number of options**	**Weighted average contractual life (years)**
$0.01 to $0.99	6,667,200	3.50	3,706,150	2.97
$1.00 to $1.49	1,250,000	1.59	1,250,000	1.59
	7,917,200	3.20	4,956,150	2.62

The total expense relating to share purchase options incurred for the year ended 31 December 2015 was ($7,513) (2014: $694,955).

The following are the weighted average assumptions employed to estimate the fair value of options granted using the Black-Scholes option pricing model:

	2015	**2014**
Risk-free interest rate	0.70%	1.55%
Expected volatility	69.37%	96.6%
Expected life	4.6 years	5 years
Expected dividend yield	Nil%	Nil%

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 issued in unit issuance

On 28 October 2013, the Company completed an oversubscribed private placement, issuing 48,904,355 subscription receipts at a price of $0.33 per subscription receipt. On 21 November 2013, following receipt from the British Columbia Securities Commission for the Company's short form prospectus, the subscription receipts converted into units consisting of one common share and one-half of one non-transferable share purchase warrant of the Company. Each whole warrant entitles the holder to acquire one common share of the Company at price of $0.45 with an expiry date of 28 October 2014. On 1 October 2014, the Company received approval to extend the expiry date of 24,452,178 private placement warrants from 28 October 2014 to 28 October 2015. On 21 October 2015 the Company received approval to extend the expiry date of these warrants to 21 October 2018. These warrants maintain an exercise price of $0.45 which entitles the holder to acquire one common share of the Company.

On 15 December 2014, the Company completed a non-brokered private placement, issuing 17,000,000 units at a price of $0.05. Each unit consists of one common share and one common share purchase warrant. These securities were subject to a hold period that expired on 16 April 2015. Each whole warrant entitled the holder thereof to acquire one common share at a price of $0.07 per share until 15 December 2015. On 21 October 2015 the Company received approval to extend the expiry date of these warrants to 15 December 2018.

As at 31 December 2015 all outstanding warrants are exercisable.

(Expressed in Canadian Dollars)

Details of the Company's warrant activity are as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding at 31 December 2013	24,452,178	0.45
Warrants issued from private placement	17,000,000	0.07
Outstanding at 31 December 2014 and 2015	**41,452,178**	**0.29**

The following are the weighted average assumptions employed to estimate the fair value of the warrants issued using the Black-Scholes warrant pricing model:

	2015	2014
Risk-free interest rate	N/A	1.02%
Expected volatility	N/A	44.21%
Expected life	N/A	1 year
Expected dividend yield	N/A	Nil%

11. REVENUES

	2015	2014
	$	$
Oil sales	2,714,584	7,911,569
Gas sales	327,159	564,369
Processing revenue (a)	2,054,883	1,543,241
Other revenue	40,883	321,097
Royalties	(199,991)	(697,792)
	4,937,518	9,642,484
Purchased oil sold (b)	-	3,001,248
Purchased condensate sold (b)	-	1,481,664
	4,937,518	14,125,396

a) As part of its operations of the TWN Assets, the Company provides services to third parties, including oil handling and pipeline throughput services, gas processing, as well as handling and disposal of produced water. The Company operates the nearby Ahuroa Gas Storage (AGS) Facility on behalf of Contact Energy Limited ("Contact"). Contact and the Company have agreed to amend aspects of the commercial relationship with Contact for the operation of the AGS Facility and in regard to the Waihapa Production Station ("WPS"). The amendments include (all figures are 100%; the Company has a 50% interest):

- escalation of the Base Fee for operation of the AGS Facility from NZ$201,000 per month to NZ$207,387 per month and the fixing of the Base Fee at this level for a 24 month period from 1 July, 2015 to 30 June 2017; and
- the grant to Contact of gas processing priority rights at the WPS for NZ$49,000 per month (for the period from 1 November 2014 until 30 June 2015); and NZ$75,000 per month (for the period from 1 July 2015 to 30 June 2017).

The figures for the year ended 31 December 2015 reflect that agreement. Full payment of the amended fees described above was received in October 2015.

b) In 2014 the Company purchased condensate and oil and on-sold both to another company. These agreements ended on 1 March 2014 (condensate) and 1 May 2014 (oil). The Company no longer assumes the risks and rewards of ownership of the condensate and oil, and therefore no longer records any revenue (or associated costs).

(Expressed in Canadian Dollars)

12. GENERAL AND ADMINISTRATIVE EXPENSES

	2015 $	2014 $
Professional fees	202,659	409,608
Management fees	-	1,145,300
Consulting fees	395,837	304,635
Travel and promotion	108,259	263,630
Administrative expenses	426,559	858,571
Rent	167,274	247,782
Filing and transfer agent fees	61,234	56,684
Insurance	384,359	422,492
Salary and wages	2,783,284	3,440,301
	4,529,465	**7,149,003**

13. INCOME TAXES

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 2015 and 2014 has been prepared as follows:

	2015 $	2014 $
Loss before income taxes	10,058,739	84,107,442
Statutory tax rate	26.0%	26.0%
Income tax (recovery) at statutory rates	(2,615,272)	(21,867,935)
Permanent difference - Stock-based compensation	(14,207)	58,572
Effect of tax rates in other jurisdictions	(193,076)	(1,638,774)
Effect of changes in foreign exchange rates	(274,871)	(461,308)
Adjustments to return	-	5,302
Change in unrecognized tax assets	3,096,225	23,895,262
Other	1,201	8,881
	-	-

(Expressed in Canadian Dollars)

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

	2015 $	2014 $
Deferred income tax assets		
Accounts payable	-	1,291,084
Employee benefits	99,723	91,945
Non-capital losses available for future periods	26,339,574	22,853,673
Environmental liabilities	3,081,868	2,309,620
Share issue costs	351,040	733,762
Resources property	4,099,780	4,950,738
	33,971,985	32,230,822
Unrecognized deferred tax assets	(32,768,913)	(30,958,094)
Deferred tax assets	1,203,072	1,272,728
Deferred income tax liability		
Accounts payable	-	-
Inventory	(107,225)	-
Property, plant and equipment	(1,098,874)	(848,073)
Net investment in subsidiaries	3,027	(424,655)
	(1,203,072)	(1,272,728)
Net deferred income tax asset	**-**	**-**

The above losses available for future years have been determined by applying a Canadian income tax rate of 26% (2014: 26%) and a New Zealand tax rate of 28% (2014: 28%). These tax benefits have not been recognized in the consolidated financial statements as the benefits are unlikely to be realized.

The Company has operating losses available in Canada to reduce future taxable income of $18,753,497, which will expire between 2030 and 2035. Tax losses carried forward in New Zealand do not expire, subject to certain requirements related to shareholder continuity, and are estimated at NZ$86,275,948.

14. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	2015 $	2014 $
Salary and management fees	1,479,543	2,112,274
Share-based compensation	(8,150)	302,928
	1,471,393	**2,415,202**

The above transactions occurred in the normal course of operations and were measured at the consideration established and agreed to by the related parties. Included in the above amounts are:

- consulting fees of $168,477 (2014: $Nil) paid to Upstream Consulting Ltd, an entity associated with Mr James Willis;
- consulting fees of $15,633 (2014: $Nil) paid to Arenig Energy Ltd, an entity associated with Dr David Llewellyn;
- consulting fees of $225,709 (2014: $Nil) paid to Michael Adams Reservoir Engineering Limited, an entity associated with Mr Michael Adams;
- management fees of $Nil (2014: $1,201,095) paid to J. Proust and Associates Inc., an entity which had officers in common.

(Expressed in Canadian Dollars)

Greymouth Petroleum Limited

Greymouth Petroleum Ltd became a related party on 23 March 2015 with directors in common. Transactions and balances (revenue, and capital expenditure, to the Company in nature) since that date comprise:

	2015	2014
	$	$
Processing revenue	423,322	-
Oil & Gas properties expenditure	46,299	-
Accounts receivable	37,795	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

Tiger Drilling Limited

Tiger Drilling Ltd became a related party on 23 March 2015 with directors in common. Transactions and balances (capital expenditure to the Company in nature) since that date comprise:

	2015	2014
	$	$
Oil & Gas properties expenditure	6,445	-

The above transactions occurred in the normal course of operation and are at values established on an arm's length basis.

15. SEGMENTED DISCLOSURES

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.

16. COMMITMENTS

As at 31 December 2015, the Company had the following undiscounted contractual obligations:

	2016	2017 to 2018	2019 and onwards	Total
	$	$	$	$
Operating lease obligations [1]	164,146	76,629	-	240,775
Contract and purchase commitments	299,153	461,546	557,242	1,317,941
	463,299	**538,175**	**557,242**	**1,558,716**

Note 1. The Company has office leases in Wellington and New Plymouth.

(Expressed in Canadian Dollars)

17. PERMIT EXPENDITURE PLANS

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

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

Permit	Type	2016	2017 to 2018	2019 and onwards	Total
		$	$	$	$
Taranaki Basin					
Eltham Permit	Exploration	-	4,274,000	-	4,274,000
Alton Permit (1)	Exploration	3,179,000	3,457,000	-	6,636,000
Total		**3,179,000**	**7,731,000**	**-**	**10,910,000**

Note1. Alton: 2016 - drill a well by 22 November, 2016; 2017: Advanced 2D/3D processing to evaluate sub-thrust targets; 2018 - drill a further exploration well. The work programme described assumes a Change of Condition application (lodged with the regulator to defer the drilling of the exploration well for 1 year to November 2016 and restructuring the timing of the subsequent work programme) is approved.

18. CAPITAL RISK MANAGEMENT

The Company's capital includes share capital, shares subscribed, contributed surplus and the cumulative deficit. The Company's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company manages its capital structure and makes adjustments to 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.

19. FINANCIAL RISK MANAGEMENT

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

Credit Risk

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

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

All of the Company's production is sold directly to a major oil company. The Company has assessed the risk of non-collection from the buyer as low due to the buyer's financial condition. Trade receivables reported in the

Company's balance sheet are aged at or under 30 days and are exposed to the risk of provisional pricing adjustment due to near-term price movements of oil.

The carrying value of the Company's cash and cash equivalents, trade receivables and restricted cash represents the maximum exposure to credit risk. There were no significant amounts past due or impaired as at 31 December 2015.

Liquidity Risk

Liquidity risk is the risk that 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 2015, the Company had $431,976 in cash and cash equivalents (31 December 2014: $1,121,967) and $2,944,931 in working capital (31 December 2014: $2,822,098). As disclosed in Note 17, 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 that 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 that 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 2015:

	Less than 1 year	2 – 5 years	Thereafter	Total
	$			$
Accounts payable and accrued liabilities	1,126,358	-	-	1,126,358

Foreign Exchange Risk

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

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

Interest Rate Risk

Interest rate risk is the risk that 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 2015 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 of liability.

20. SUBSEQUENT EVENTS

There are no Subsequent Events to report.