



**Second Quarter 2016
Condensed Consolidated Interim Financial Statements**

30 June 2016

(Expressed in Canadian Dollars)
(Unaudited)

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of New Zealand Energy Corp. ("the Company") have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for the review of condensed consolidated interim financial statements by an entity's auditor.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET
(Expressed in Canadian Dollars)

Assets	30 June 2016	31 December 2015
Current	\$	\$
Cash and cash equivalents	81,455	431,976
Accounts and other receivables (Note 3)	626,545	722,144
Prepaid expenses	211,129	326,421
Inventories (Note 4)	2,713,358	2,590,748
	3,632,487	4,071,289
Non -Current		
Restricted cash	344,813	356,176
Software and proprietary database	84,762	189,432
Property, plant and equipment (Note 5)	23,697,976	23,583,681
Exploration and evaluation assets (Note 6)	-	-
	27,760,038	28,200,578
Liabilities		
Current		
Accounts payable and accrued liabilities	1,302,230	1,126,358
	1,302,230	1,126,358
Asset retirement obligations (Note 7)	12,686,354	11,006,673
	13,988,584	12,133,031
Shareholders' equity		
Share capital (Note 8)	109,738,706	109,738,706
Foreign currency translation reserve	12,517,388	13,080,501
Share based payments reserve	22,541,639	22,514,355
Accumulated deficit	(131,026,279)	(129,266,015)
	13,771,454	16,067,547
	27,760,038	28,200,578

Description of business and going concern (Note 1)
Commitments (Note 13) and Permit Expenditure Plans (Note 14)
Subsequent events (Note 15)

These consolidated financial statements are authorized for issuance by the Board of Directors on 19 August 2016.

On behalf of the Board of Directors

"James Willis"
James Willis, Director

"Mark Dunphy"
Mark Dunphy, Director

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(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, 31 December 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*	44,250,000	1,737,794	-	-	-	-	1,737,794
Stock-based compensation (Note 8(b))	-	-	80,358	-	-	-	80,358
Net loss for the period	-	-	-	-	-	(2,402,785)	(2,402,785)
Other comprehensive income for the period	-	-	-	-	(1,554,013)	-	(1,554,013)
Balance, 30 June 2015	232,123,459	109,738,706	21,252,937	1,349,289	10,902,168	(121,610,061)	21,633,039
Balance, 31 December 2015	232,123,459	109,738,706	21,165,066	1,349,289	13,080,501	(129,266,015)	16,067,547
Stock-based compensation (Note 8(b))	-	-	27,283	-	-	-	27,283
Net loss for the period	-	-	-	-	-	(1,760,264)	(1,760,264)
Other comprehensive income for the period	-	-	-	-	(563,113)	-	(563,113)
Balance, 30 June 2016	232,123,459	109,738,706	21,192,349	1,349,289	12,517,388	(131,026,279)	13,771,453

*Net of share issue costs

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS
(Expressed in Canadian Dollars)

	Three months Ended 30 June		Six months Ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Revenues (Note 9)	1,574,491	1,225,724	3,033,484	2,422,201
Expenses and other items				
Production costs	548,240	285,749	684,443	544,629
Processing costs	196,634	135,463	414,712	365,832
Depreciation	328,022	376,590	1,078,575	859,850
Impairment	-	508,235	-	508,235
Stock-based compensation (Note 8(b))	12,177	31,036	26,326	80,358
General and administrative (Note 10)	983,492	1,146,674	2,115,793	2,433,708
Finance expense	69,485	68,082	140,816	145,576
Foreign exchange loss	2,052	(46,186)	13,116	(56,138)
Abandonment provision movement	235,566	(57,064)	319,967	(57,064)
	2,375,668	2,448,579	4,793,748	4,824,986
Net loss for the period	(801,177)	(1,222,855)	(1,760,264)	(2,402,785)
Exchange difference on translation of foreign currency (i)	327,203	(2,752,402)	(563,113)	(1,554,013)
Total comprehensive loss for the period	(473,974)	(3,975,257)	(2,323,377)	(3,956,798)
Basic and diluted loss per share	\$ (0.004)	\$ (0.005)	\$ (0.008)	\$ (0.011)
Weighted average shares outstanding	232,123,459	232,123,459	232,123,459	212,076,498

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

See accompanying notes to the unaudited condensed consolidated interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Expressed in Canadian Dollars)

	30 June 2016	30 June 2015
	\$	\$
Operating activities		
Net loss for the period	(1,760,264)	(2,402,785)
Changes for non cash operating items		
Stock-based compensation	26,326	80,358
Depreciation and accretion	1,218,095	1,000,399
Abandonment provision movement	319,967	(57,064)
Foreign exchange loss	4,803	(6,261)
Impairment	-	508,235
Change in non-cash working capital items		
Accounts and other receivables	69,729	606,913
Prepaid expenses	102,601	162,187
Inventories	(199,810)	(111,913)
Accounts payable and accrued liabilities	170,928	(904,436)
Cash provided by (used in) operating activities	(47,625)	(1,124,367)
Investing activities		
Expenditures on resource properties	-	(15,187)
Purchase of property and equipment	(275,194)	(212,541)
Cash used in investing activities	(275,194)	(227,728)
Financing activities		
Shares issued (net of share issuance cost)	-	1,737,794
Working capital facility	-	(398,573)
Cash provided by financing activities	-	1,339,221
Net decrease in cash and cash equivalents during the period	(322,819)	(12,874)
Effect of exchange rate changes on cash	(27,702)	(58,059)
Cash and equivalents, beginning of the period	431,976	1,121,967
Cash and equivalents, end of the period	81,455	1,051,034
Supplemental cash flow disclosures		
Changes in accounts payable related to exploration and evaluation assets	-	120,178
Changes in accounts payable related to property, plant and equipment	(29,143)	20,559

See accompanying notes to the unaudited condensed consolidated interim financial statements.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
30 June 2016
(Expressed in Canadian Dollars)

1. DESCRIPTION OF BUSINESS AND GOING CONCERN

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

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

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

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

Going Concern

While these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the six months ended 30 June 2016, the Company reported a Net Loss of \$1,760,264 and a cash outflow from operating activities of \$47,625 and as at that date, the Company had working capital of \$2,330,257. The Company also has several permit expenditure plans (Note 14) 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, credit facilities, commercial arrangements or other financing alternatives (including the revolving credit facility implemented subsequent to quarter end).

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 unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting. The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements for the year ended 31 December, 2015, which have been prepared in accordance with IFRS as issued by the 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.

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 2015.

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3. ACCOUNTS AND OTHER RECEIVABLES

	30 June 2016	31 December 2015
	\$	\$
Trade receivables	453,628	424,215
GST Receivable	31,751	5,505
Other receivables	141,166	292,424
	<u>626,545</u>	<u>722,144</u>

4. INVENTORIES

	30 June 2016	31 December 2015
	\$	\$
Material and supplies	2,226,063	2,313,456
Oil inventories	487,295	277,292
	<u>2,713,358</u>	<u>2,590,748</u>

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture \$	Plant and equipment \$	Land and building \$	Oil and gas properties \$	Total \$
Cost					
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 / Transfers	(95,529)	(7,425)	-	-	(102,954)
Impairment	-	-	-	(1,674,100)	(1,674,100)
Change in Asset retirement cost due to change in estimate	-	897,436	-	549,936	1,447,372
Foreign currency translation adjustment	11,873	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
Additions	-	186,390	-	175,194	361,584
Change in Asset retirement cost due to change in estimate	-	1,016,551	-	499,433	1,515,984
Foreign currency translation adjustment	(11,888)	(263,494)	(46,127)	(810,212)	(1,131,721)
Balance, 30 June 2016	412,595	10,235,004	1,399,781	25,880,753	37,928,133
Accumulated depreciation					
Balance, 31 December 2014	244,749	418,357	-	10,882,147	11,545,253
Depreciation and depletion	44,386	369,908	-	1,088,616	1,502,910
Transferred to assets held for sale	(95,529)	(7,425)	-	-	(102,954)
Foreign currency translation adjustment	3,862	42,324	-	607,210	653,396
Balance, 31 December 2015	197,468	823,164	-	12,577,973	13,598,605
Depreciation and depletion	13,664	205,182	-	818,816	1,037,662
Foreign currency translation adjustment	(5,800)	(20,644)	-	(379,666)	(406,110)
Balance, 30 June 2016	205,332	1,007,702	-	13,017,123	14,230,157
Net book value					
Balance, 31 December 2015	227,015	8,472,393	1,445,908	13,438,365	23,583,681
Balance, 30 June 2016	207,263	9,227,302	1,399,781	12,863,630	23,697,976

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6. EXPLORATION AND EVALUATION ASSETS

	Taranaki Basin, New Zealand \$	East Coast Basin, New Zealand \$	Total \$
Balance, 31 December 2014	3,679,452	514,113	4,193,565
Additions	55,159	1,932	57,091
Impairment - Eltham	(13,405)	-	(13,405)
Impairment - Alton	(3,683,647)	-	(3,683,647)
Impairment - East Cape	-	(508,235)	(508,235)
Foreign currency translation adjustment	(37,559)	(7,810)	(45,369)
Balance, 31 December 2015	-	-	-
Balance, 30 June 2016	-	-	-

7. LONG TERM ASSET RETIREMENT OBLIGATIONS

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

	\$
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 current	386,222
Balance, 31 December 2015	11,006,673
Change in estimate	1,837,399
Accretion expense for the year	139,522
Foreign currency translation adjustment	(297,240)
Balance, 30 June 2016	12,686,354

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

	2016	2015
Total undiscounted value of payments	\$18,047,366	\$20,230,760
Discount rate	2.12% to 2.51%	2.60% to 3.55%
Expected life	1 to 20 years	1 to 23 years

8. SHARE CAPITAL

- a) Common shares – there has been no issuance of common shares year to date 2016.
- b) Share purchase options – pursuant to the Company's stock option plan, non-transferable options to purchase common shares must not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 30 June 2016.

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

	Number of options	Weighted average exercise price
		\$
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	<u>12,386,825</u>	<u>0.13</u>
Expired	(32,625)	0.45
Outstanding at 30 June 2016	<u>12,354,200</u>	<u>0.13</u>

The following table summarises information about share options outstanding and exercisable at 30 June 2016:

Range of exercise price	Options Outstanding		Options Exercisable	
	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
\$0.01 to \$0.99	12,354,200	3.66	2,293,700	2.18
	<u>12,354,200</u>	<u>3.66</u>	<u>2,293,700</u>	<u>2.18</u>

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

Range of exercise price	Options Outstanding		Options Exercisable	
	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
	<u>12,386,825</u>	<u>4.16</u>	<u>1,971,825</u>	<u>2.58</u>

The total expense relating to share purchase options incurred for the six month period ended 30 June 2016 was \$26,326 (2015: \$80,358).

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

	2016	2015
Risk-free interest rate	N/A	0.70%
Expected volatility	N/A	69.37%
Expected life	N/A	4.6 years
Expected dividend yield	N/A	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.

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c) Warrants – as at 30 June 2016 all outstanding warrants are exercisable.

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

	Number of warrants	Weighted average exercise price
		\$
Outstanding at 31 December 2014	41,452,178	0.29
Outstanding at 31 December 2015 and 30 June 2016	41,452,178	0.29

9. REVENUES

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Oil sales	887,979	811,508	1,627,633	1,531,077
Gas sales	220,704	76,204	430,714	152,061
Processing revenue	504,287	407,279	1,018,895	845,675
Other revenue	25,467	5,652	62,181	16,665
Royalties	(63,946)	(74,919)	(105,939)	(123,277)
	1,574,491	1,225,724	3,033,484	2,422,201

10. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Professional fees	33,951	36,683	122,043	133,428
Management fees	-	-	-	2,452
Consulting fees	26,463	72,113	97,236	197,895
Travel and promotion	12,221	(3,844)	22,064	21,811
Administrative expenses	80,907	66,054	179,974	167,008
Rent	36,466	6,341	72,001	58,526
Filing and transfer agent fees	7,027	34,243	11,197	41,356
Insurance	43,679	195,534	85,509	274,637
Salary and wages	742,778	739,550	1,525,769	1,536,595
	983,492	1,146,674	2,115,793	2,433,708

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11. 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:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Salary and management fees	405,857	361,421	761,853	661,027
Share-based compensation	12,550	24,130	26,536	52,729
	418,407	385,551	788,389	713,756

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 for the six month period are:

- fees of \$53,706 (2015: \$63,220) paid to Upstream Consulting Ltd, an entity associated with Mr James Willis;
- fees of \$7,550 (2015: \$Nil) paid to Arenig Energy Ltd, an entity associated with Dr David Llewellyn;
- fees of \$297,004 (2015: \$Nil) paid to Michael Adams Reservoir Engineering Limited, an entity associated with Mr Michael Adams;

Greymouth Petroleum Limited

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

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Processing revenue	95,498	112,575	193,381	112,575
Accounts receivable	34,427	44,128	34,427	44,128

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:

	Three months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	\$	\$	\$	\$
Oil & Gas properties expenditure	17,581	-	67,932	-
Accounts payable	78,121	-	78,121	-

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

New Zealand Energy Corp.
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12. 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.

13. COMMITMENTS

As at 30 June 2016, the Company had the following undiscounted contractual obligations:

	2016	2017 to 2018	2019 and onwards	Total
	\$	\$	\$	\$
Operating lease obligations	80,000	77,000	-	157,000
Contract and purchase commitments	119,000	447,000	539,000	1,105,000
	199,000	524,000	539,000	1,262,000

14. PERMIT EXPENDITURE PLANS

The anticipated cost of the works planned are set out below and relate to the following permits/licences:

Permit/Licence	Type	2016	2017 to 2018	2019 and onwards	Total
		\$	\$	\$	\$
<i>Taranaki Basin</i>					
Eltham Permit ⁽¹⁾	Exploration	-	4,238,000	-	4,238,000
Alton Permit ⁽²⁾	Exploration	3,078,000	3,347,000	-	6,425,000
Tariki Licence ⁽³⁾	Producing		350,000	1,102,000	1,452,000
Waihapa and Ngaere Licence ⁽⁴⁾	Producing		25,000	2,685,000	2,710,000
Total		3,078,000	7,960,000	3,787,000	14,825,000

(1) Eltham: 2017 - drill an exploration well.

(2) Alton: 2016 - drill an exploration well by 22 November 2016; 2017 - advanced 2D/3D processing to evaluate sub-thrust targets; 2018 - drill a further exploration well.

(3) Tariki: 2018 - update geological models and install a jet pump (if economically viable); 2020 - studies of alternative uses (including gas storage) and optimum commercial recovery of gas volume; 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.

(4) Waihapa and Ngaere: 2018 - submit reservoir models and undertake study for enhanced oil recovery; 2019 - implement enhanced oil recovery project; 2020 - assessment of developing deep gas resources in Kapuni Group; 2022 - updated field development plan.

15. SUBSEQUENT EVENTS

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

Restricted Cash/Bonds - bonds provided to the Crown in respect of the Tariki, Waihapa and Ngaere petroleum mining licences were previously secured by term deposits. These have been replaced with bonds provided by BNZ, secured as described in "Revolving Credit Facility" above. The NZ\$375,000 is now available for general working capital purposes.