



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

30 September 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)

	Notes	30 September 2016 \$	31 December 2015 \$
Assets			
Current			
Cash and cash equivalents		-	431,976
Accounts and other receivables	3	545,475	722,144
Prepaid expenses		93,730	326,421
Inventories	4	2,670,709	2,590,748
		3,309,914	4,071,289
Non-Current			
Restricted cash		-	356,176
Software and proprietary database		40,215	189,432
Property, plant and equipment	5	24,416,925	23,583,681
Exploration and evaluation assets	6	-	-
		24,457,140	24,129,289
		27,767,054	28,200,578
Liabilities			
Current			
Bank overdraft		14,496	-
Accounts payable and accrued liabilities		1,048,488	1,126,358
		1,062,984	1,126,358
Non-Current			
Asset retirement obligations	7	13,577,576	11,006,673
		14,640,560	12,133,031
Shareholders' equity			
Share capital	8	109,738,706	109,738,706
Foreign currency translation reserve		12,986,372	13,080,501
Share based payments reserve		22,553,889	22,514,355
Accumulated deficit		(132,152,473)	(129,266,015)
		13,126,494	16,067,547
		27,767,054	28,200,578

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

These consolidated financial statements are authorized for issuance by the Board of Directors on 14 November 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)

	Note	Number of shares	Share Capital \$	Share based payments reserve (options) \$	Share based payments reserve (warrants) \$	Foreign currency translation reserve \$	Accumulated deficit \$	Total equity \$
Balance, 31 December 2014		187,873,459	108,000,912	21,172,579	1,349,289	12,456,181	(119,207,276)	23,771,685
Units issued, at \$0.04 (net of share issue costs)		44,250,000	1,737,794	-	-	-	-	1,737,794
Stock based compensation	8(b)	-	-	(18,926)	-	-	-	(18,926)
Net loss for the period		-	-	-	-	-	(3,209,549)	(3,209,549)
Other comprehensive income for the period		-	-	-	-	(1,288,664)	-	(1,288,664)
Balance, 30 September 2015		232,123,459	109,738,706	21,153,653	1,349,289	11,167,517	(122,416,825)	20,992,340
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	8(b)	-	-	39,534	-	-	-	39,534
Net loss for the period		-	-	-	-	-	(2,886,458)	(2,886,458)
Other comprehensive income for the period		-	-	-	-	(94,129)	-	(94,129)
Balance, 30 September 2016		232,123,459	109,738,706	21,204,600	1,349,289	12,986,372	(132,152,473)	13,126,494

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

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

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 \$	2015 \$	2016 \$	2015 \$
Revenues					
Revenue	9	1,356,500	1,296,485	4,389,984	3,718,686
Expenses and other items					
Production costs		557,461	251,638	1,241,904	796,266
Processing costs		298,047	318,457	712,759	684,289
Depreciation		451,873	377,857	1,530,447	1,237,707
Impairment		-	-	-	508,235
Stock-based compensation	8(b)	12,387	(99,284)	38,713	(18,926)
General and administrative	10	1,024,177	1,009,138	3,139,970	3,442,847
Finance expense		71,863	(39,235)	212,680	106,340
Foreign exchange loss		11,818	140,868	24,934	84,730
Abandonment provision movement		55,068	143,810	375,035	86,747
		<u>2,482,694</u>	<u>2,103,249</u>	<u>7,276,442</u>	<u>6,928,235</u>
Net loss		(1,126,194)	(806,764)	(2,886,458)	(3,209,549)
Exchange difference on translation of foreign currency (i)		468,984	265,349	(94,129)	(1,288,664)
Total comprehensive loss		(657,210)	(541,415)	(2,980,587)	(4,498,213)
Basic and diluted loss per share		\$ (0.005)	\$ (0.004)	\$ (0.012)	\$ (0.015)
Weighted average shares outstanding		232,123,459	232,123,459	232,123,459	218,832,250

(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 September 2016 \$	30 September 2015 \$
Operating activities		
Net loss for the period	(2,886,458)	(3,209,549)
Changes for non-cash operating items		
Stock-based compensation	38,713	(18,926)
Depreciation and accretion	1,741,293	1,429,850
Abandonment provision movement	375,035	86,747
Foreign exchange loss	15,574	(1,149)
Impairment	-	508,235
Change in working capital items		
Accounts and other receivables	166,966	437,115
Restricted Cash	341,865	-
Prepaid expenses	223,841	176,814
Inventories	(71,900)	(21,382)
Accounts payable and accrued liabilities	(76,697)	(739,386)
Cash provided by (used in) operating activities	(131,768)	(1,351,631)
Investing activities		
Expenditures on resource properties	-	(36,881)
Purchase of property and equipment	(280,740)	(203,098)
Cash used in investing activities	(280,740)	(239,979)
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	(412,508)	(252,389)
Effect of exchange rate changes on cash	(33,964)	(32,196)
Cash and equivalents, beginning of the period	431,976	1,121,967
Cash and equivalents, end of the period	(14,496)	837,382
 Supplemental cash-flow disclosures		
Changes in accounts payable related to exploration & evaluation assets	-	120,178
Changes in accounts payable related to property, plant & equipment	-	20,559

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 September 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 nine months ended 30 September 2016, the Company reported a Net Loss of \$2,886,458 and a cash outflow from operating activities of \$131,768 and as at that date, the Company had working capital of \$2,246,930. 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 in the current quarter).

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.

New Zealand Energy Corp.
Notes to the Unaudited Condensed Consolidated Interim Financial Statements
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3. ACCOUNTS AND OTHER RECEIVABLES

	30 September 2016	31 December 2015
	\$	\$
Trade receivables	365,971	424,215
GST receivable	28,289	5,505
Other receivables	151,215	292,424
	<u>545,475</u>	<u>722,144</u>

4. INVENTORIES

	30 September 2016	31 December 2015
	\$	\$
Material and supplies	2,311,562	2,313,456
Oil inventories	359,147	277,292
	<u>2,670,709</u>	<u>2,590,748</u>

5. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixtures	Plant and equipment	Land and buildings	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 and transfers	(95,529)	(7,425)	-	-	(102,954)
Impairment	-	-	-	(1,674,100)	(1,674,100)
Change in asset retirement cost due to change in estimate	-	897,436	-	549,936	1,447,372
Foreign currency translation adjustment	11,873	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	-	180,892	-	174,656	355,548
Change in asset retirement cost due to change in estimate	-	1,242,938	-	613,655	1,856,593
Foreign currency translation adjustment	706	84,939	2,740	86,809	175,194
Balance, 30 September 2016	425,189	10,804,326	1,448,648	26,891,458	39,569,621
	Furniture and fixtures	Plant and equipment	Land and buildings	Oil and gas properties	Total
	\$	\$	\$	\$	\$
Accumulated depreciation					
Balance, 31 December 2014	244,749	418,357	-	10,882,147	11,545,253
Depreciation and depletion	44,386	369,908	-	1,088,616	1,502,910
Disposals	(95,529)	(7,425)	-	-	(102,954)
Foreign currency translation adjustment	3,862	42,324	-	607,210	653,396
Balance, 31 December 2015	197,468	823,164	-	12,577,973	13,598,605
Depreciation and depletion	20,542	348,497	-	1,093,080	1,462,119
Foreign currency translation adjustment	1,277	15,718	-	74,977	91,972
Balance, 30 September 2016	219,287	1,187,379	-	13,746,030	15,152,696
Net book value					
Balance, 31 December 2015	227,015	8,472,393	1,445,908	13,438,365	23,583,681
Balance, 30 September 2016	205,902	9,616,947	1,448,648	13,145,428	24,416,925

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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 September 2016	-	-	-

7. LONG TERM ASSET RETIREMENT OBLIGATIONS

	30 September 2016 \$	31 December 2015 \$
Opening Balance 1 January	11,006,673	7,902,421
Change in estimate	2,232,017	1,914,001
Accretion expense for the year	210,837	273,029
Reclassified as current	-	386,222
Foreign currency translation adjustment	128,049	531,000
Closing Balance	13,577,576	11,006,673

Assumptions

Total undiscounted value of payments	\$18,679,123	\$20,230,760
Discount rate	1.9% to 2.3%	2.6% 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 September 2016.

Options activity	Nine months ended 30 September 2016		Twelve months ended 31 December 2015	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Outstanding at 1 January	12,386,825	0.13	7,917,200	0.54
Granted	-	-	10,000,000	0.05
Expired	(102,625)	0.45	(4,433,000)	0.61
Forfeited	-	-	(1,097,375)	0.45
Total Outstanding	12,284,200	0.12	12,386,825	0.13

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Options outstanding and exercisable	As at 30 September 2016			As at 31 December 2015	
	Range of exercise price \$	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Options outstanding	0.01 to 0.99	12,284,200	3.43	12,386,825	4.16
Options exercisable	0.01 to 0.99	2,234,200	2.00	1,971,825	2.58

Options expense and assumptions	30 September 2016	31 December 2015
Expense – period to date	\$38,713	\$(7,513)
<i>Black-Scholes option pricing model assumptions for new options granted:</i>		
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.

- c) Warrants - as at 30 September 2016 all outstanding warrants are exercisable.

Warrants activity	Nine months ended 30 September 2016		Twelve months ended 31 December 2015	
	Number of warrants	Weighted average exercise price \$	Number of warrants	Weighted average exercise price \$
Outstanding at 1 January	41,452,178	0.29	41,452,178	0.29
Total Outstanding	41,452,178	0.29	41,452,178	0.29

9. REVENUE

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
Oil sales	683,556	553,168	2,311,189	2,084,245
Gas sales	120,303	87,253	551,018	239,316
Processing revenue	527,299	669,732	1,546,193	1,515,407
Other revenue	37,111	13,223	99,292	29,887
Royalties	(11,769)	(26,891)	(117,708)	(150,169)
	1,356,500	1,296,485	4,389,984	3,718,686

New Zealand Energy Corp.
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10. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Professional fees	2,189	29,326	124,232	162,754
Consulting fees	42,729	43,356	139,966	241,251
Travel and promotion	287	15,040	22,350	36,852
Administrative expenses	88,958	165,375	268,931	334,836
Rent	38,186	47,277	110,187	105,802
Filing and transfer agent fees	4,044	16,231	15,241	57,587
Insurance	51,343	50,061	136,852	324,698
Salary and wages	796,441	642,472	2,322,211	2,179,067
	1,024,177	1,009,138	3,139,970	3,442,847

11. RELATED PARTY TRANSACTIONS

Key Management and Personnel Compensation

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Salary and consulting fees	369,092	438,248	1,130,944	1,099,275
Share based compensation	12,159	(73,650)	38,695	(20,921)
	381,251	364,598	1,169,639	1,078,354

Included in the above amounts are fees paid to:

Upstream Consulting Ltd (James Willis)	28,342	38,592	82,048	101,812
Arenig Energy Ltd (David Llewellyn)	140	-	7,689	-
Michael Adams Reservoir Engineering Ltd (Michael Adams)	143,376	121,683	440,380	121,683

Greymouth Petroleum Limited

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Processing revenue	92,560	108,281	285,942	220,856
Accounts receivable	31,783	39,258	31,783	39,258

Tiger Drilling Ltd

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

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
Oil and Gas properties expenditure	26,362	-	94,294	-
Accounts payable	1,431	-	1,431	-

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 September 2016, the Company had the following undiscounted contractual obligations:

	2016 \$	2017 to 2018 \$	2019 and onwards \$	Total \$
Operating lease obligations	39,867	84,944	-	124,811
Contract and purchase commitments	62,618	462,421	558,298	1,083,337
	102,485	547,365	558,298	1,208,148

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 \$
Taranaki Basin					
Eltham Permit ⁽¹⁾	Exploration	-	4,387,000	-	4,387,000
Tariki Licence ⁽²⁾	Producing	-	363,000	1,138,000	1,501,000
Waihapa Ngaere Licence ⁽³⁾	Producing	-	26,000	2,778,000	2,804,000
		-	4,776,000	3,916,000	8,692,000
Alton Permit ⁽⁴⁾	Exploration	3,188,000	3,469,000	-	6,657,000
		3,188,000	8,245,000	3,916,000	15,349,000

- 1) Eltham: 2017 - drill an exploration well.
- 2) 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.
- 3) 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.
- 4) 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. Subsequent to quarter end an application was made to relinquish the Permit. See "Subsequent Events".

15. SUBSEQUENT EVENTS

Alton - As operator, the Company has submitted an application to relinquish the Alton exploration permit (NZEC 65%, LME 35%). The permit work programme required the drilling of an exploration well by 22 November 2016. The Company fully impaired the carrying value of the Alton Permit exploration and evaluation expenditure in December 2015