Second Quarter 2017
Condensed Consolidated Interim Financial Statements

30 June 2017

(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 June 2017 $	31 December 2016 $
Assets			
Current			
Cash and cash equivalents	3	60,406	57,969
Accounts and other receivables	4	1,980,269	808,866
Prepaid expenses		210,080	214,497
Inventories	5	706,764	756,596
Total current assets		**2,957,519**	1,837,928
Non-Current			
Accounts and other receivables	4	950,500	-
Inventories	5	1,890,651	1,868,416
Property, plant and equipment	6	19,677,449	19,360,187
Total non-current assets		**22,518,600**	21,228,603
Total assets		**25,476,119**	23,066,531
Liabilities			
Current			
Revolving credit facility	3	359,945	363,183
Accounts payable and accrued liabilities	8	2,599,535	1,247,879
Total current liabilities		**2,959,480**	1,611,062
Non-Current			
Asset retirement obligations	7	11,951,619	10,849,429
Accounts payable and accrued liabilities	8	950,500	-
Total non-current liabilities		**12,902,119**	10,849,429
Total liabilities		**15,861,599**	12,460,491
Shareholders' equity			
Share capital	9	109,738,706	109,738,706
Foreign currency translation reserve		12,562,466	12,435,010
Share based payments reserve		22,590,365	22,566,048
Accumulated deficit		(135,277,017)	(134,133,724)
Total shareholders' equity		**9,614,520**	10,606,040
Total liabilities and shareholders' equity		**25,476,119**	23,066,531

Description of business and going concern (Note 1)

These unaudited condensed consolidated interim financial statements are authorized for issuance by the Board of Directors on 23 August 2017.

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 2015		232,123,459	109,738,706	21,165,066	1,349,289	12,722,326	(128,907,840)	16,067,547
Share based compensation	9(a)	-	-	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	12,159,213	(130,668,104)	13,771,453
Balance, 31 December 2016		232,123,459	109,738,706	21,216,759	1,349,289	12,435,010	(134,133,724)	10,606,040
Share based compensation	9(a)	-	-	24,317	-	-	-	24,317
Net loss for the period		-	-	-	-	-	(1,143,293)	(1,143,293)
Other comprehensive income for the period		-	-	-	-	127,456	-	127,456
Balance, 30 June 2017		**232,123,459**	**109,738,706**	**21,241,076**	**1,349,289**	**12,562,466**	**(135,277,017)**	**9,614,520**

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 June		Six months ended 30 June	
		2017	**2016**	**2017**	**2016**
		$	**$**	**$**	**$**
Revenues					
Revenue	10	2,143,077	1,574,491	4,049,772	3,033,484
Expenses and other items					
Production costs		476,196	548,240	797,005	684,443
Purchased light oil	10	594,449	-	1,048,157	-
Processing costs		274,953	196,634	544,059	414,712
Depreciation and depletion	6	295,148	328,022	687,919	1,078,575
Share-based compensation	9(a)	12,158	12,177	24,317	26,326
General and administrative	11	917,396	983,492	2,019,394	2,115,793
Finance expense		76,996	69,485	162,224	140,816
Foreign exchange loss		10,260	2,052	9,177	13,116
Other income		(735)	-	(65,165)	-
Loss on disposal of assets		38,499	-	38,499	-
Abandonment provision movement		10,156	235,566	27,479	319,967
		2,705,526	2,375,668	5,193,065	4,793,748
Net loss		**(562,449)**	(801,177)	**(1,143,293)**	(1,760,264)
Other comprehensive income/(loss):					
Exchange difference on translation of foreign currency (i)		474,635	327,203	127,456	(563,113)
Total comprehensive loss		**(87,814)**	(473,974)	**(1,015,837)**	(2,323,377)
Basic and diluted loss per share		$ (0.002)	$ (0.004)	$ (0.005)	$ (0.008)
Weighted average shares outstanding		232,123,459	232,123,459	232,123,459	232,123,459

(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)

	Notes	Six months ended 30 June	
		2017	**2016**
		$	**$**
Operating activities			
Net loss for the period		(1,143,289)	(1,760,264)
Changes for non-cash operating items			
Share-based compensation		24,317	26,326
Depreciation, depletion and accretion		854,269	1,218,095
Abandonment provision movement		27,479	319,967
Foreign exchange loss		8,792	4,803
Loss (Gain) on disposal		62,441	-
Change in non-cash working capital items			
Accounts and other receivables		(2,096,783)	69,729
Prepaid expenses		6,719	102,601
Inventories		60,733	(199,810)
Accounts payable and accrued liabilities		2,260,929	170,928
Cash provided by (used in) operating activities		**65,608**	(47,625)
Investing activities			
Purchase of property, plant and equipment		(47,188)	(275,194)
Cash used in investing activities		(47,188)	(275,194)
Financing activities			
Cash provided by financing activities		**-**	-
Net increase (decrease) in cash and cash equivalents		18,420	(322,819)
Effect of exchange rate changes on cash		(12,744)	(27,702)
Cash and equivalents, beginning of the period		(305,214)	431,976
Cash and equivalents, end of the period	3	**(299,538)**	81,455
Supplemental cash-flow disclosures			
Changes in accounts payable related to property, plant & equipment		(9,307)	(29,143)

See accompanying notes to the unaudited condensed consolidated interim 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, as well as the operation of midstream assets, in New Zealand.

The Company's registered and records office is located at Suite 2800, Park Place, 666 Burrard St, Vancouver BC V6C 2Z7. The Company's principal place of business is 14 Connett Road, New Plymouth, New Zealand 4312.

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

Going Concern

While these consolidated financial statements have been prepared using International Financial Reporting Standards ("IFRS") applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they come due, certain conditions cast significant doubt on the validity of this assumption. For the six months ended 30 June 2017, the Company reported a Net Loss of $1,143,293 (2016: $1,760,264) and a cash inflow from operating activities of $65,608 (2016: ($47,625)) and as at that date, the Company had working capital of ($1,961) (2016: $2,330,257). The Company also has several permit expenditure plans (Note 15) which are associated with the Company's interest in its oil and gas properties and exploration and evaluation assets.

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.

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, 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

Accounting policies specific to certain balances are described within the detailed note in the sections below.

General accounting policies adhered to in these financial statements are as follows:

Basis of Preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with 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 December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB.

These unaudited condensed consolidated interim 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 2016.

(Expressed in Canadian Dollars)

3. CASH AND CASH EQUIVALENTS, AND REVOLVING CREDIT FACILITY

	30 June 2017 $	31 December 2016 $
Cash and cash equivalents	60,406	57,969
Revolving credit facility	(359,945)	(363,183)
	(299,539)	(305,214)

4. ACCOUNTS AND OTHER RECEIVABLES

	Note	30 June 2017 $	31 December 2016 $
Trade receivables		795,234	645,090
GST receivable		15,302	7,878
Financial receivable from related party	12	1,045,550	-
Other receivables		124,183	155,898
Total Current Accounts and other receivables		**1,980,269**	808,866
Non-Current Financial receivable from related party	12	**950,500**	-

5. INVENTORIES

	30 June 2017 $	31 December 2016 $
Material and supplies	221,343	218,493
Oil inventories	485,421	538,103
	706,764	756,596
Non-current material and supplies	**1,890,651**	1,868,416

(Expressed in Canadian Dollars)

6. PROPERTY, PLANT AND EQUIPMENT

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Cost					
Balance, 31 December 2015	424,483	1,445,908	9,295,557	26,016,338	37,182,286
Additions	-	-	180,857	155,743	336,600
Impairment	-	-	(1,447,454)	(1,508,403)	(2,955,857)
Change in asset retirement cost due to change in estimate	-	-	250,236	423,623	673,859
Foreign currency translation adjustment	(4,433)	(17,202)	(123,009)	(299,975)	(444,619)
Balance, 31 December 2016	420,050	1,428,706	8,156,187	24,787,326	34,792,269
Additions	-	-	56,983	-	56,983
Disposals	(78,471)	-	-	-	(78,471)
Change in asset retirement cost due to change in estimate	-	-	448,989	330,614	779,603
Foreign currency translation adjustment	4,507	18,268	106,203	317,561	446,539
Balance, 30 June 2017	**346,085**	**1,446,974**	**8,768,361**	**25,435,502**	**35,996,922**

	Furniture and fixture $	Land and building $	Plant and equipment $	Oil and gas properties $	Total $
Accumulated depreciation					
Balance, 31 December 2015	197,468	-	823,164	12,577,973	13,598,605
Depreciation and depletion	27,130	-	493,557	1,435,754	1,956,441
Foreign currency translation adjustment	(1,780)	-	(2,751)	(118,433)	(122,964)
Balance, 31 December 2016	222,818	-	1,313,970	13,895,294	15,432,082
Depreciation and depletion	12,103	-	236,851	452,465	701,419
Disposals	(16,030)	-	-	-	(16,030)
Foreign currency translation adjustment	2,840	-	18,664	180,499	202,004
Balance, 30 June 2017	**221,731**	**-**	**1,569,485**	**14,528,257**	**16,319,473**
Net Book Value					
Balance, 31 December 2016	197,232	1,428,706	6,842,217	10,892,032	19,360,187
Balance, 30 June 2017	**124,354**	**1,446,974**	**7,198,875**	**10,907,245**	**19,677,449**

(Expressed in Canadian Dollars)

7. 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.

	30 June 2017	31 December 2016
	$	$
Opening Balance	10,849,429	11,006,673
Change in estimate	803,823	(338,447)
Accretion expense for the year	152,851	312,623
Foreign currency translation adjustment	145,516	(131,420)
Closing Balance	**11,951,619**	**10,849,429**

Assumptions	**2017**	**2016**
Total undiscounted value of payments	$17,874,887	$17,814,791
Discount rate	1.8% to 2.77%	2.27% to 3.36%
Inflation rate	2%	2%
Expected life	2 to 19 years	2 to 20 years

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	Note	30 June 2017 $	31 December 2016 $
Trade payables		1,008,796	717,582
GST payable		122,675	103,769
Financial payable	12	1,045,550	-
Accrued liabilities		422,515	426,528
Total Accounts payable and accrued liabilities		**2,599,535**	1,247,879
Non-current financial payable	12	**950,500**	-

9. SHARE CAPITAL

a) Share purchase options

Pursuant to the Company's share option plan, non-transferable options to purchase common shares must not exceed 10% of the number of then outstanding common shares, or 23,212,346 options, based on the total issued and outstanding common shares as at 30 June 2017. Such options can be exercisable for a maximum of five years from the date of grant. The exercise price of each share option is set by the Board of Directors at the time of grant but cannot be less than the market price at the time of grant. Vesting of share options is at the discretion of the Board of Directors at the time the options are granted.

In November 2015, the Company granted 10,000,000 incentive share 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.

(Expressed in Canadian Dollars)

Options activity

	Number of options	Weighted average exercise price $
Outstanding at 1 January 2016	12,386,825	0.13
Expired	(102,625)	0.45
Total Outstanding 31 December 2016	12,284,200	0.12
Expired	(1,000,000)	0.45
Total Outstanding 30 June 2017	11,284,200	0.10

Options outstanding and exercisable

		30 June 2017		31 December 2016	
	Exercise price $	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Options outstanding	0.05	10,000,000	3.00	10,000,000	3.50
Options outstanding	0.45	1,284,200	1.24	2,284,200	1.77
Total options outstanding		11,284,200	2.80	12,284,200	3.18
Options exercisable	0.05	-	-	-	-
Options exercisable	0.45	1,284,200	1.24	2,284,200	1.77
Total options exercisable		1,284,200	1.24	2,284,200	1.77

Options expense and assumptions

	30 June 2017	30 June 2016
Expense	$24,317	$26,326
Black-Scholes option pricing model assumptions for new options granted:		
Risk-free interest rate	N/A*	N/A*
Expected volatility	N/A*	N/A*
Expected life	N/A*	N/A*
Expected dividend yield	N/A*	N/A*

*No new options granted.

b) Warrants

Warrants activity

	Number of warrants	Weighted average exercise price $
Outstanding at 1 January 2016	41,452,178	0.29
Total Outstanding 31 December 2016 and 30 June 2017	41,452,178	0.29

Warrants outstanding and exercisable

		30 June 2017		31 December 2016	
	Exercise price $	Number of options	Weighted average contractual life (years)	Number of options	Weighted average contractual life (years)
Warrants outstanding and exercisable	0.07	17,000,000	1.46	17,000,000	1.96
Warrants outstanding and exercisable	0.45	24,452,178	1.33	24,452,178	1.83
Total outstanding and exercisable		41,452,178	1.38	41,452,178	1.88

(Expressed in Canadian Dollars)

10. REVENUE

	Note	Three months ended 30 June		Six months ended 30 June	
		2017	**2016**	**2017**	**2016**
		$	**$**	**$**	**$**
Oil sales		888,367	887,979	1,723,405	1,627,633
Gas sales		62,078	220,704	96,528	430,714
Processing revenue		621,803	504,287	1,217,789	1,018,895
Other revenue		59,158	25,467	119,344	62,181
Royalties		(82,828)	(63,946)	(155,451)	(105,939)
		1,548,578	1,574,491	**3,001,615**	3,033,484
Purchased light oil sold	i)	594,499	-	1,048,157	-
		2,143,077	1,574,491	**4,049,772**	3,033,484

i) The Company has an arrangement with a third party whereby the Company purchases light oil, charges a processing fee and subsequently sells the light oil to the same major oil company to which the Company sells its oil. Any unsold light oil is carried as inventory.

11. GENERAL AND ADMINISTRATIVE EXPENSES

	Three months ended 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Professional fees	29,246	33,951	120,134	122,043
Consulting fees	9,643	26,463	67,046	97,236
Travel and promotion	14,774	12,221	21,829	22,064
Administrative expenses	101,556	80,907	211,961	179,974
Rent	21,957	36,466	54,375	72,001
Filing and transfer agent fees	8,612	7,027	20,086	11,197
Insurance	33,814	43,679	78,791	85,509
Salary and wages	697,794	742,778	1,445,172	1,525,769
	917,396	983,492	**2,019,394**	2,115,793

12. RELATED PARTY TRANSACTIONS

Entities associated with the Company include: Greymouth Petroleum Limited, Tiger Drilling Ltd, GMP Environmental Ltd, and Greymouth Gas Taranaki Ltd. Transactions have occurred in the normal course of operations and are at values established on an arm's length basis. The following transactions and balances with these related parties are:

	Note	Three months ended 30 June		Six months ended 30 June	
		2017	**2016**	**2017**	**2016**
		$	**$**	**$**	**$**
Processing revenue		87,132	95,498	169,269	193,381
Production costs		54,051	-	148,913	-
Trade receivables		31,866	34,427	31,866	34,427
Trade payables		16,248	78,121	16,248	78,121
Oil & Gas properties expenditure		-	17,581	-	67,932
Total settlement for royalty discharge	i)	3,453,030	-	3,453,030	-
Current financial receivable	i)	1,045,550	-	1,045,550	-
Non-current financial receivable	i)	950,500	-	950,500	-

(Expressed in Canadian Dollars)

i) In March 2017 Taranaki Ventures Limited (TVL) acquired an Overriding Royalty (Royalty Agreement) from a third party which contained an obligation due by a related party of TVL. Concurrently TVL agreed to fully discharge and cancel the related party's obligations under the Royalty Agreement in return for payment from the related party. Payment to the third party (Note 8) and receipt from the related party (Note 4) is spread over 2 years, with future payments and receipts secured by back to back bank guarantees. The arrangement is immediately cash positive for the Company by the amount of the gain under the arrangement of $165,165 less related transaction costs.

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 30 June		Six months ended 30 June	
	2017	**2016**	**2017**	**2016**
	$	**$**	**$**	**$**
Salary and consulting fees	244,798	405,857	564,779	761,853
Share based compensation	12,159	12,550	24,317	26,536
	256,956	418,407	**589,096**	788,389
Included in the above amounts are:				
Upstream Consulting Ltd (James Willis)	8,533	26,712	16,989	53,706
Arenig Energy Ltd (David Llewellyn)	-	-	-	7,550
Michael Adams Reservoir Engineering Ltd (Michael Adams)	114,550	173,107	228,186	297,004

13. 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.

14. COMMITMENTS

As at 30 June 2017, the Company had the following undiscounted contractual obligations:

	2017	**2018 to 2019**	**2020 and onwards**	**Total**
	$	**$**	**$**	**$**
Operating lease obligations	11,017	27,682	-	38,699
Contract and purchase commitments	161,551	365,802	407,235	934,588
	172,568	**393,483**	**407,235**	**973,287**

Bank Guarantees

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

Taranaki Ventures Ltd (TVL), a subsidiary of the Company, has bank guarantees in place to ensure its performance in paying its future obligations of: Financial Payable due 30 March 2018, NZD1,100,000, and Financial Payable due 29 March 2019, NZD1,000,000 (Note 8).

These bank guarantees are secured by way of general security agreement over the present and after acquired assets of Taranaki Ventures Limited (TVL) with NZEC subsidiaries NZEC Holdings Limited, NZEC Tariki Limited, NZEC Waihapa Limited and NZEC Management Limited guaranteeing the obligations of TVL under the facility.

(Expressed in Canadian Dollars)

15. 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 to 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/licences (in the Taranaki Basin):

Permit/Licence	Note	Type	2017 $	2018 to 2019 $	2020 and onwards $	Total $
Eltham Permit	1	Exploration	-	3,764,000	-	3,764,000
Tariki Licence	2	Producing	-	216,000	1,089,000	1,305,000
Waihapa Ngaere Licence	3	Producing	-	405,000	192,000	597,000
			-	**4,385,000**	**1,2581,000**	**5,666,000**

1) Eltham: 2018 - drill an exploration well.
2) Tariki: 2018 - update geological models and install a jet pump (if economically viable); 2021 - implement project for gas recovery, drill well or sidetrack, and prepare updated field development plan.
3) Waihapa and Ngaere: 2019 - implement enhanced oil recovery project.